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Competing with the Big Boys - Strategies for Growth for a Startup Company in
the Singapore Food Industry

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MBA

Competing with the Big Boys - Strategies for Growth for a Startup Company in
the Singapore Food Industry

by
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June 2010

A Management project presented in part consideration for the degree of
Masters of Business Administration.

Abstract

Entrepreneurship provides the basis for satisfying of personal goals and possibly profit maximization; Singapore has a good infrastructure in place to facilitate new business setup and other business functions. Being one of the first few industries that have promoted trade and main revenue drivers, the Singapore Food Industry is in its mature state and entrenched with established big-name global, regional and national players with long histories. But because of its ability to innovate, and with consumers constantly looking for new refreshing tastes, the Food industry continues to be earmarked by the government as the few pillars of growth and therefore has an abundance of opportunities for the entrepreneurially adventurous and hungry (Tan 2002).

But with only a small market of 4.9 million local dwellers, competitive environment in the Food Industry is not for the faint hearted (Ranken, Kill & Baker 1997), while increasingly sophisticated consumers are demanding improved services, varieties, quality and value from food companies. New niche players would thus still be able to carve out a space and enjoy a fairly lucrative amount of return with Singapore's robust and fairly resilient economy.

This study involves a particular new entrant to the food landscape, Preferred Choice Food Company (PCFC). Supporting only institutional customers, PCFC manages and caters to staff or employee cafeterias, creating a niche for itself in small to medium sized companies, choosing not to go head on with established competitors. Since its inception in 2008, it has steadily increased its food service portfolio to 5 cafeteria outlets and recently expanded its operations to serve the Muslim clientele which makes up about 10% of the overall staff community. With a stable operational footing and resource base, PCFC is now positioned to take the next step forward, focusing on growth and expansion opportunities in the vast food service industry. But being a new startup, immediate growth priorities would have to be conservative, organic and the most natural; which is to be able to maximize current resource capabilities to achieve a competitive advantage in a market that will incur low investment outlay but yet provide good return on investment.

PCFC's competitive environment was evaluated and through SWOT and Value Chain Analysis, PCFC core competencies of pre-packed sauces, value added activities and ability to keep overheads low was found to have led to its competitive advantage. Added capability requirements were also identified to provide sustained competitive advantage. Expansion opportunities in the food industry from service provision to manufacturing were applied to a competitive analysis matrix derived from Michael Porter's 5 forces, opportunities were subsequently ranked to determine the most promising path of growth to follow (Tan 2002).

Based on the findings, commercial catering for consumers was the most obvious short term growth plan while packed condiments manufacturing and direct food retail would provide vast and promising opportunities for the longer term. As any startup where preservation of capital and speed of inflow of revenues is the key, the implementation strategy for immediate expansion plans would have to consider activities with the lowest outlay but with the greatest possible return (Ranken, Kill & Baker 1997). Plans for implementation include the most applicable marketing mix, operational and financial requirements for the added capabilities and resources required.

Finally this study provides information on the future steps that PCFC may embark on that could pave the way for sustainable and continued growth required in the Singapore Food Industry.

Acknowledgement

This dissertation could not be finished without the help and support of many people who are gratefully acknowledged here.

At the very first, I am honored to express my highest gratitude to my supervisor Chirs Mahon for his invaluable comments and suggestion throughout the preparation of this dissertation.

I also wish to thank all my life partner Michelle for showing me the light and friends Alvin, Sean etc. who had given me advise and encouragement in my data collection and made my life enjoyable during the study at University of Nottingham.

At last but not least, I would like to thank my family for their support all the way from the very beginning of my postgraduate study, this dissertation cannot be completed without the love, encouragement and support from my parents. To my biological Father whom just passed away, I will miss you.

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Chapter 1: Introduction

Since Singapore's independence in 1965, it has seen tremendous growth at 8% (annual) fairly consistently despite world wide economic headwinds from time to time. Foreign investments contribute to a major part of this growth with the continued efforts of Economic Development Board of Singapore to attract the leaders and rising stars of emerging industries that continue to innovate and grow. This has led to Singapore as a pro-business or business friendly environment where foreigners or locals can setup shop with a blink of an eye, almost immediate to be exact with the necessary information and documentation on hand (Ranken, Kill & Baker 1997).

Although not completely forgotten, the local government has now started to embrace new local startups and Small and Medium Enterprises (SME) with greater assistance schemes and programmes. Private sector entrepreneurs have long been documented to contribute to Singapore's pre-independence growth (Chan and Chiang 1995). But after Singapore's independence, state entrepreneurship took over, with the public sector blazing the trail with statutory boards and statutory companies or government-linked companies (GLC) (Lee and Low 1990). Adding to the already competitive environment, Singapore embraced free trade and globalization, and Singapore was ranked the most globalized country in 2009 based on the data gathered by Ernst and Young in cooperation with the Economist Intelligence Unit (EIU). All this competition from global and state owned companies has placed great strain on local enterprises and SMEs in certain industries. In a survey conducted with business representatives of 235 SME companies, the results show that 45% of the respondents were 'somewhat affected' by trade liberalism and 16.9% being 'very much affected' while only 23% responded 'not affected' (Tan 2002).

Entrepreneurship or starting a business from scratch entails numerous hardships, ups and downs, possible failures and constant disillusion on whether this is the right step for the incumbent. The journey looks bleak from time to time, and the light at the end of the tunnel maybe nowhere insight, but if successful it could be prove very rewarding personally and financially. It is also the positive

societal views in Singapore towards entrepreneurs from peers and friends that actually spur someone to take the plunge (Tan 2002).

In this particular case for a local startup company involved in Singapore's Food Industry, after taking the plunge and getting the business to a certain level, in an industry faced with strong global and local competition, there are various opportunities and paths to follow for growth, but which is the best path to follow? Which is the best way to go about implementing? This dissertation will focus on analysis of current capabilities and resources, to match with the business opportunities that provide the greatest leverage of core competencies or related products diversification to achieve substantial economies of scope and scale. In order to provide a more comprehensive view, an implementation strategy and future steps for growth are being researched and planned for as well by the author.

1.1 Dissertation Objective

The purpose of this dissertation is two-fold. The first is to lay the foundations for the start-up company to give it an idea on where it should be heading and how to get there and second is for it to acquire possible funding for growth in the researched areas.

With this information and knowledge, it will provide the business owner with the plan to stay relevant and remain competitive while utilizing its core competencies to push its brand to many other areas in the Asian food landscape.

1.2 The structure of the Dissertation

This dissertation involves the actions required for a startup company catered towards growth and expansion. It represents more of a business perspective/plan rather than traditional research scope studies. A practical approach would be applied to its available business opportunities, available analysis tools, strategic and implementation plans, while a literature review would describe the analysis tools and strategies e.g. relatedness diversification that has received prior discussion by authors.

Chapter 2: Food Industry and Company Background

The in-depth look into the overall framework of the food service industry in Singapore; in particular Institutional food industry where PCFC is competing, as well as an exploration into the future trends.

Chapter 3.0 Literature Review

Theoretical basis on the analysis methods chosen and utilized for this dissertation will be discussed; it includes SWOT, Value Chain and Five Forces. Related diversification and resource based view strategies are exactly what PCFC can look to pursue that is conservative yet effective, perfect for startup companies with tight budgets. Competitive strategies of Cost and Differentiation will be touched upon.

Chapter 4: Company business & growth objectives

In this chapter, the reader will get to understand the background of PCFC and its highly competitive environment. Also SWOT and Value Chain analysis will be performed to identify potential shortfalls and what steps or resources are required. Finally with these information, growth opportunities would surface and be identified for further analysis.

Chapter 5: Business Opportunity Analysis and Strategy for Growth

Five forces Matrix Analysis with the inclusion of 3 other factors will be used to determine the most natural and immediate growth path, followed by describing areas of Commercial catering market in greater detail. This chapter shall also delve into ideas of leveraging scope and scale economies to achieve eventual competitive advantages of cost and differentiation.

Chapter 7: Implementation strategy

An overall implementation plan will be drawn out to include what sort of marketing mix is best required and if done well will decide if the new business makes or break, financial requirements together with operational requirements will be worked out for the new business group.

Chapter 8: Conclusion and Recommendation for future Growth

Final words for the business owner to consider and also longer term growth plans that can be pursued but only once financial and capabilities have been built up.

Chapter 2: Food Industry and Company Background

2.1 Food Service Definition

The food industry covers a wide spectrum of businesses, products and markets from wholesale and distribution, food processing/ manufacturing, raw materials supply, retail, agriculture, food service, together organizations and individuals supply and feed the world's population.

This dissertation focuses mainly on the Food Service Industry. Food service is defined as the sale of food and drinks for immediate consumption either on the premises from which they were bought, or in designated eating areas shared with other operators, or in the case of takeaway transactions, freshly prepared food for immediate consumption. In the broadest sense, the Food Service Industry encompasses all establishments where food is regularly served outside of the home, consisting of a wide range of establishments with an array of menu and ambience offerings.

2.2 Overview of Singapore's Food Service Industry

Food together with shopping has always been the favorite past time of local Singaporeans. At every turn there would either be a sale happening or a new food outlet opening. Singapore being only a tiny island in the peninsular, its food culture has existed since the very beginning where street hawker stalls first sprouted out all over the island. In such a small country, there are currently over 5000 food establishments, generating over \$5 billion receipts and contributing to about 0.7% to the annual GDP, (Economic Survey Series 2008). The F&B industry plays a vital role in Singapore's economy. Singapore has been ranked alongside Hong Kong and Australia as one of the three major eating capitals in the Asia Pacific region (Ranken, Kill & Baker 1997).

Table 2.1 F&B operating Receipts

Industries / Size of Operating Receipt	Establishments (No)	Workers (No)	Operating Receipts (\$'000)	Value Added (\$'000)
Food & Beverage Services	5939	82,551	5,555,550	1,910,000
ESTABs with < \$1m	4905	41,892	2,225,000	693,000
ESTABs with \$1m - < \$5m	948	29,073	1,994,000	675,000
ESTABs with \$5m & above	85	11,587	1,335,000	542,000
<i>Source : Department of Statistics, 2008</i>				

Understandably, in the current environment of soaring food prices and falling consumer purchasing power due to the economic issues still plaguing the market, it is likely to be premium brands that are hit hardest, with consumers downgrading to less expensive alternatives and sacrificing quality for cost. Indeed, but the robustness of the F&B industry reflects Singaporeans national passion for food (Ranken, Kill & Baker 1997). According to the Department of Statistics, in 2008, the F&B industry generated \$5.5 billion in operating receipts, which grew by 8.5% over 2007. In terms of operating receipts per establishment per month, on an average decreased by 3.5% from \$80,684 to \$77,945 from 2008 to 2007, which was still not too bad considering that was during the start of the major economic downturn.

Table 2.2 F&B Indicators

Indicators	2004	2005	2006	2007	2008
No. of Establishments	4,517	4,489	4,958	5,286	5,939
No. of Workers	66,092	70,441	75,335	78,234	82,551

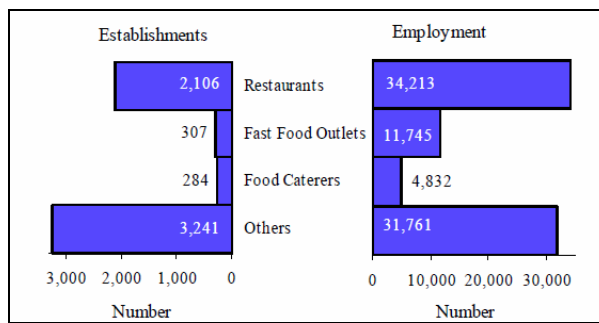
Operating Receipts (\$m)	4,011	4,335	4,653	5,118	5,555
Value-added (\$m)	1,293	1,440	1,605	1,773	1,910
GDP Contribution (%)	0.71	0.73	0.73	0.70	0.7
Source: Department of Statistics & SPRING Singapore					
Note : Excludes Non-Profit Organizations					

But this economic resilience has also to do with overseas visitors. Singapore attracts nearly 10 million tourists annually, and is a leading centre for exhibitions, meetings and conventions. 2 mega Integrated Resorts opened in 2010 and forecasted to contribute up to 0.5 or 1% of the GDP when fully operational. The inaugural Singapore Grand Prix held in September, attracts 50,000 foreign visitors to watch the Formula One race. Singapore also hosts the annual World Gourmet Summit, which features world-renowned chefs at various established outlets and is rapidly becoming a major event in the international calendar (Sector report: food & drink 2010). With over 5,900 F&B establishments, employing close to 83,000 workers, visitors to Singapore account for \$900 million of the total expenditure in F&B services, at 14%, this is the third largest share after shopping and accommodation.

2.3 Singapore Food Service Market

The foodservice industry grew by 4.7% in 2008 to reach a volume of 839million transactions. The compound annual growth rate of the industry volume looks healthy and for the period from 2004-2008, it was 3.9% (Datamonitor 2009). According to Singapore Department of Statistics, in 2008, the number of F&B establishments in Singapore was at 5,939, up 12% over 2007. Restaurants accounted for the main bulk at 34% with 2106 establishments and the rest was made up of fast food outlets, caterers and others such as companies that operated food courts or food centers, each of which may have many separate food stalls.

Chart 2.1 Establishments & Employment 2008

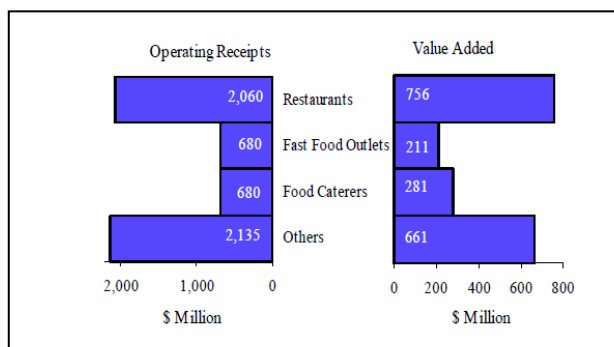


Others – includes cafes, coffee shops, snack bars, canteens, pubs, bars

Source : Economic Survey Series 2008

Restaurants are the most important of the food service industry, they are the largest contributors of operating receipts (37.3%) and value add (41.9%), in 2008, total revenues was at \$2.06 billion.

Chart 2.2 Operating Receipts & Value Added 2008



Others – includes cafes, coffee shops, snack bars, canteens, pubs, bars

Source : Economic Survey Series 2008

Total operating expenditure for F&B establishments was at \$5.3 billion for 2008, 8% higher than 2007. This was the result of the increases in food prices (9.5%), remuneration (7.9%) and rental. For Food Caterers, the main business costs are remuneration, purchases of raw materials, royalties followed by rental.

Table 2.3 Main Business Costs 2008

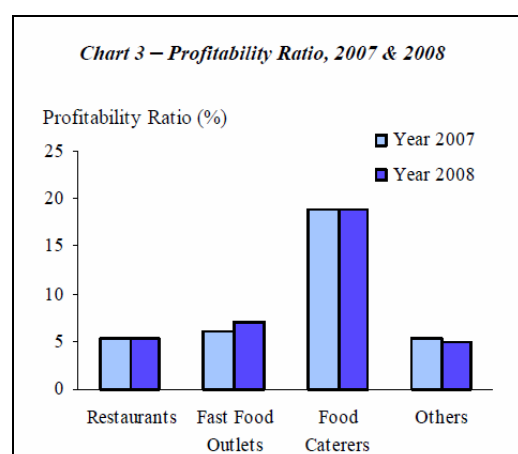
F&B Services	Cost Type and % Share				
	1 st	2 nd	3 rd	4 th	5 th
Restaurants	Purchase 33.5	Rem 31.2	Rental 15.3	Utilities 4.2	Dep 3.6
Fast Food Outlets	Purchase 28.6	Rem 24.5	Rental 21.3	Royalties 4.7	Utilities 4.5
Food Caterers	Purchase 34.2	Rem 26.5	Royalties 9.8	Subcontract 4.6	Rental 4.2
Others	Purchase 38.5	Rem 25.6	Rental 16.0	Utilities 4.2	Dep 2.9

Notations
 Dep : Depreciation
 Purchase : Purchases of food & beverages for sale
 Rem : Remuneration
 Rental : Renting of offices, shops & other premises
 Royalties : Royalties / franchise & management fees
 Subcontract: Subcontract charges / work given out
 Utilities : Utilities charges

Source : Economic Survey Series 2008

In terms of profitability ratio (operation surplus to operation receipts) for Food Caterers, it remained constant for 2007 and 2008 at 18.8%, and was significantly higher than other sectors in the food service industry.

Chart 2.3 Profitability Ratios 2007 & 2008



Others – includes cafes, coffee shops, snack bars, canteens, pubs, bars

Source : Economic Survey Series 2008

Spending on food and beverages has regularly increased over the years. Singaporeans spend an average of \$1,900 annually on meals outside the home, and has one of the highest rate of per capita spend for eating out. Restaurants

posted the highest growth in numbers since 2006, with caterers remaining the most profitable. Singapore Department of Statistics show that the average Singaporean consumer spends 12.5% of their monthly income on non-cooked food and 15% on cooked food, average Median income at \$3600/mth, therefore spending for the average consumer would be at \$540/mth for cooked food provided by the food service sector.

Food expenses ranked third highest in terms of monthly expenditure for a average household and by type of housing, average of \$800/mth is spent for resident in private houses, average of \$700/mth for private flats and average of \$300/mth for public flats. Young parents spend \$1.2billion per year (33%) on food courts, hawker centers, coffee shops and 720million (20%) at fast food restaurants. Young parents bring kids to food courts, hawker centers, coffee shops 50% of the time and 80 to 100% of the time to fast food restaurants. Seniors spend about \$440million or \$116/mth on food courts, hawker centers, coffee shops (Sector report: food & drink 2010).

Singapore's food culture is here to stay and with the numerous new concepts and cuisines, Singaporeans are definitely spoilt for choice, filled with an incredible array of F&B outlets from up-market eateries and restaurants to inexpensive cafes. Over the past 10 years, Singapore's food culture has changed rapidly as the country has quickly become one of Asia's newly industrialized nations. Continued economic, urban and personal income growth will considerably change the size and structure of Singapore's food service and processing industry.

2.4 Institutional Food Service

Food service can be classified as: Commercial (general public) or Institutional/Contract.

Institutional or contract food service can be further divided into five main sectors:

Business and industry (B&I)

Education

Healthcare

Correctional

Other contract catering and foodservice management

B&I is the largest sector of the market in terms of meals served, outlets operated and turnover. The fastest-growing sector (2005 to 2009) in terms of value is considered to be the 'other contract catering and foodservice management', which includes sub sectors such as central and local government, the Ministry of Defence(MoD), the construction industry and oil rigs (Datamonitor 2009).

Employee feeding is undergoing tremendous change because of rising labor costs, the decreased subsidies offered by corporations, and the demands of the customer for more healthy menus, reduced prices, longer hours of operations and 'grab and go' food choices (Datamonitor 2009).

It is clear that all segments of institutional food service are faced with a variety of age ranges, ethnicities, cultural diversity, demands, encroachment of management companies, branding concepts, longer work weeks, higher costs, and reduced profits. Each type of institutional food service establishment will also be governed by management philosophy, policies and procedures individualized to the organization, visions, values, goals, objectives and systems of operation. The background of customers and requirements may vary, but they all demanding more variety, lower prices, faster service, and higher quality food. These establishments are challenged by decreased budgets and the need to increase profits. 2009 was a difficult year for the contract catering and food

management services sector. Demand for contract catering services in the important B&I sector was particularly affected by the recession as companies attempted to cut the costs of their catering services. Demand in other sectors of the market, including the healthcare, education and defense, offshore and remote site sectors, are less susceptible to economic downturns and performed better (Casper, Hester, Alex, 2007).

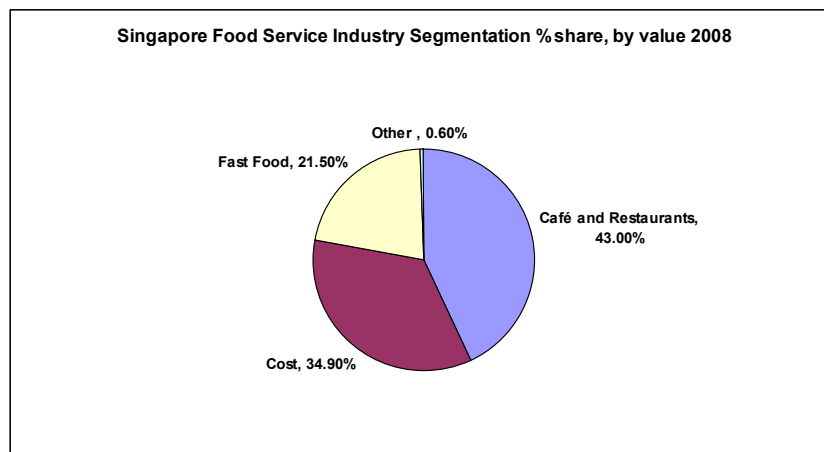
2.5 Singapore's Institutional Food Service Market Size

Although competitive and faced with decreasing profits, Institutional catering still offers food service companies stability and strong cash flow as compared to retail or commercial markets. In terms of the B&I sector, Singapore's has over 8000 establishments in manufacturing and employing more than 400,000 staff. For service accommodation, there are over 300 establishments and employing about 30,000 staff. On a single day, considering part of the B&I sector consisting just manufacturing facilities and hotels, a conservative estimate of more than 300,000 meals would be required from institutional caterers.

Typically service contracts with institutional catering companies lasts for 2 – 3 years and thereafter a new entrant takes over, meaning to say contract opportunities are available round the year based on the considerable number of organizations in Singapore that provide employee meals in their premises.

Datamonitor (2009) has provided data on market segmentation of Singapore's food service industry (Fig.3) in terms of revenue, Cost referring to the institutional food service sector, contributes a significant portion of 34.9% to the overall food service revenue or a market size of about \$1.9 billion for 2008, a big enough pie for the 208 institutional food service establishments (Department of Statistics Singapore).

Chart 2.4 Singapore Food Service Industry Segmentation



Cost – Includes workplace, education, hospitals, welfare and service locations where subsidy is paid to the food service operator

Other – Includes nightclubs, sales on-board boats, planes, trains, or coaches

Source : Datamonitor 2009

2.6 Singapore Food Service Trends

The F & B industry in Singapore, specifically the food service industry is alive and kicking. Filled with a vast array of food specialties catering to differing tastes, new establishments are constantly being setup to satisfy the enormous appetite of these hungry yet increasingly sophisticated consumers. This industry offers tremendous entrepreneurship opportunities because of its low entry barriers and attracts enterprising individuals who give up professional careers to go into business in search of sustainable profits (Ranken, Kill & Baker 1997).

Singapore's food and beverage industry is getting hotter and competition is brewing, as providing high-quality food is no longer enough for companies to stay ahead of the game. Developing innovative dining concepts are needed to court consumers of today as they travel more and acquire increasingly sophisticated taste buds

Indeed, the industry is seeing more F&B companies injecting new ideas and finding innovative ways to do business. This is because the industry players recognize the need to be responsive to changes in consumer tastes and preferences, especially given the short lifespan of concepts and products in this

sector. Future growth in this sector will revolve around higher value-added products, some geared toward health-conscious consumers who will eat more wholesome breads and specialty pastries. Other consumers will eat more Western-style cakes, pastries, meat pies and quiches. As affluence grows and the market becomes more exposed to these new products, consumption is expected to increase.

Eating out is an established lifestyle pattern in Singapore, and it has one of the highest global per capita spends in this region. The numerous F&B outlets, from gourmet restaurants to the hawker centers, offer a wide range of alternatives to cooking at home. In response to the hectic pace of life, a range of convenience products have emerged, including ready mix sauces, that aim to replicate traditional dishes at home. This has been identified as the fastest growing category in Asia. The food service industry held steady in 2009, with more food outlets slated to open, and the catering industry recording over 10% growth in profitability (Valisa 2010).

The main market trends for the food service industry include:

Trend towards smaller households and double-income families, leading to a busy and hectic lifestyle where there is a increased demand for convenience and speed of preparation for food items

Strong emphasis on health promotion from the government and increasing consumer consciousness of food, safety, hygiene and environment. Focus is now on healthy, natural and organic products

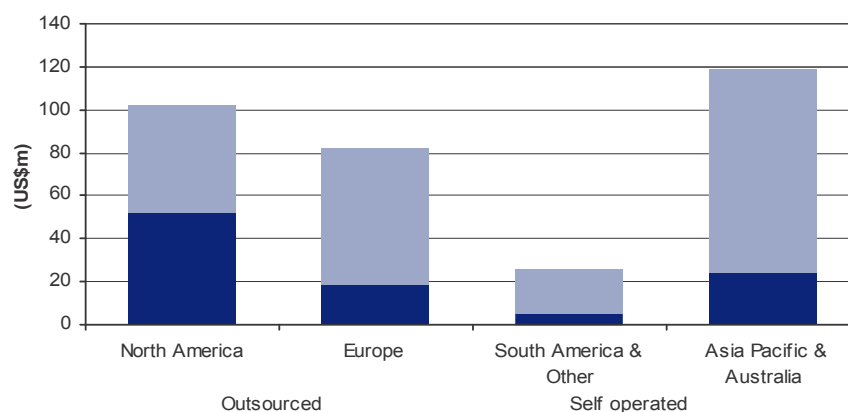
Increasing sophisticated consumers with rising affluence and travels abroad, demand more cuisine choice from other cultures.

Branding has become one of the major criteria in consumers' choice of restaurants. Better-known stores will offer more confidence to consumers in food quality, food hygiene, services, etc.

2.7 Institutional Catering Food Service Trends

Major customers of the catering industry include large scale business corporations (both foreign and international), government bodies, schools, hospitals, military and corrections units, etc. As they have a sizeable amount of workers, catering services are usually outsourced to professional catering service providers to minimize cost and streamline operations. The global contract food service market is estimated at >US\$300b, of which 50% is outsourced. In asia, this percentage is lower at 20% (Casper, Hester, Alex, 2007).

Chart 2.5 Global Contract Food Service Industries



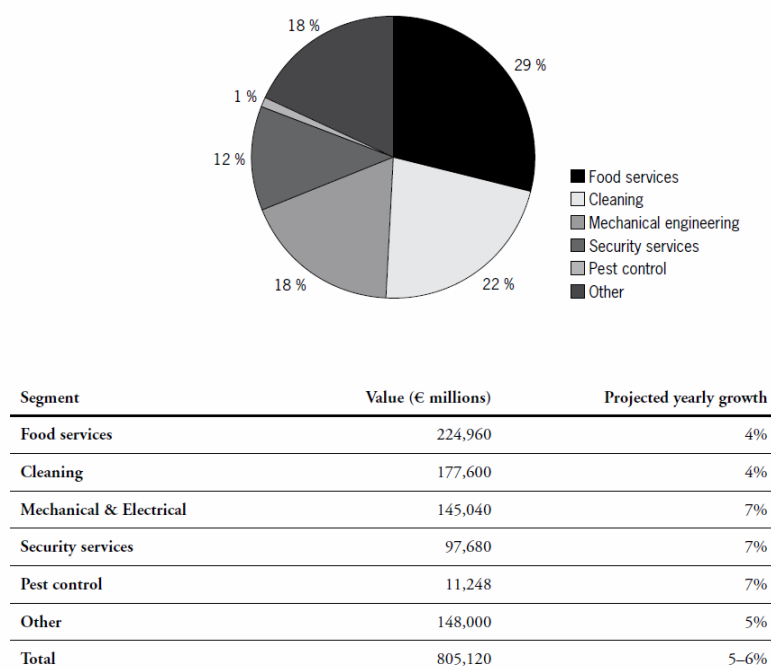
Source: Technomics, GIRA, Restaurant Industry Centre and Compass

Key Note business analysis reports that forecasts for contract catering and foodservice management market will return to growth in 2010, although the increase in the value of the sector will only be modest and would depend on a large extent, to the recovery in the wider economy (Ranken, Kill & Baker 1997). The continuing difficult economic climate in 2010 will mean that caterers will have to continue to keep close control of their costs so as to protect their own profitability and to meet the demands of clients.

The main trend we are seeing is where support services are becoming an ever more important part of the business of leading contract caterers, and non-food service companies have also added contract catering in their portfolio. Chart 2.6 shows the food and support service types and its projected growth. The delivery of multi-services that bundle food and support services accounts for the majority

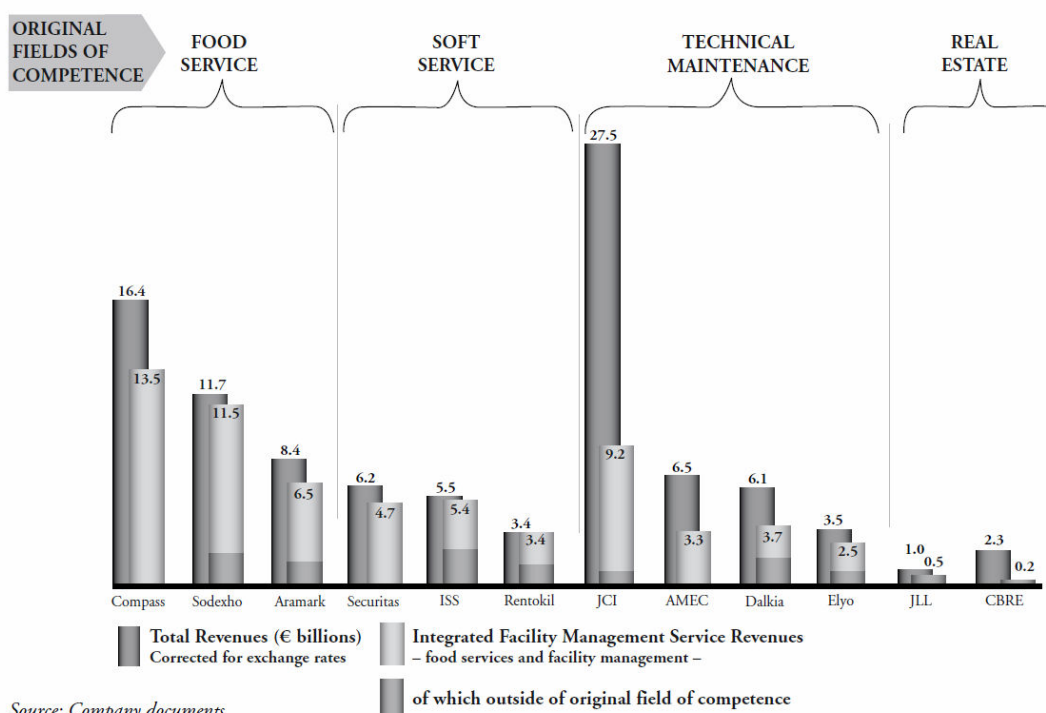
of revenues of some of the largest companies, Chart 2.7 , and this trend is likely to increase further.

Chart 2.6 World Food and Support Service Market



Source: 'Support services: Facility services review', Investec Securities, 2007

Chart 2.7 Established players moving outside of original competence field



Source: Company documents

In summary, the main factors that are likely to influence the institutional sector include: the opportunities available for contractors to provide add-on services in addition to catering; the trend towards healthier diets.

Chapter 3: Literature Review

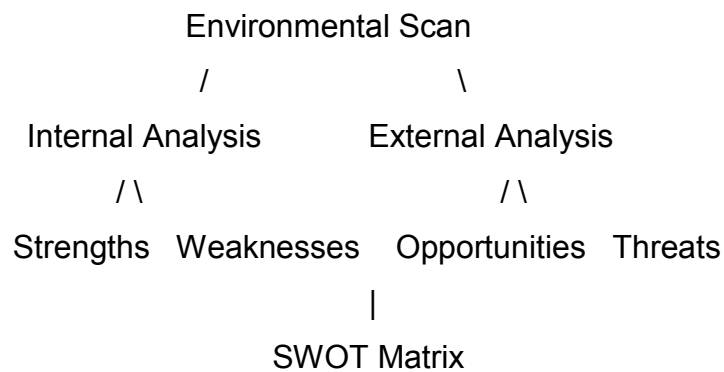
3.1 SWOT Analysis

The dominant overall framework in strategic management is one that is normally seen as conceived of by Kenneth Andrews in his *The Concept of Corporate Strategy* (Andrew 1987). According to Andrews, the role of the strategist is to match the opportunities of the environment with what the firm is capable of doing at an acceptable level of risk, while safeguarding the weaknesses of the firm from the threats of the same environment. It is readily seen that this involves an assessment of internal phenomena and an external analysis of the environment-the industry (Hall 1992). These capabilities are 'resources' that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness.

A scan of the internal and external environment is an important part of the strategic planning process (Javidan 1998). Environmental factors internal to the firm usually can be classified as strengths (S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or threats (T). The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates (Chang & Singh 1999). As such, it is instrumental in strategy formulation and selection. The following diagram shows how a SWOT analysis fits into an environmental scan:

3.1.1 SWOT Analysis Framework

Table 3.1 SWOT Framework



A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage (Hall 1992). Examples of such strengths include:

- patents,
- strong brand names,
- good reputation among customers,
- cost advantages from proprietary know-how,
- exclusive access to high grade natural resources, or
- favorable access to distribution networks.

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- lack of patent protection,
- a weak brand name,
- poor reputation among customers,
- high cost structure,
- lack of access to the best natural resources, or
- lack of access to key distribution channels.

In some cases, a weakness may be the flip side of a strength (Andrew 1987). Take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

- an unfulfilled customer need,
- arrival of new technologies,
- loosening of regulations, or
- removal of international trade barriers.

Changes in the external environmental also may present threats to the firm. Some examples of such threats include:

- shifts in consumer tastes away from the firm's products,
- emergence of substitute products,
- new regulations, or
- increased trade barriers.

A firm should not necessarily pursue the more lucrative opportunities (Andrew 1987). Rather, it may have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. The SWOT matrix (also known as a TOWS Matrix) is shown below:

3.1.2 SWOT / TOWS Matrix

Table 3.2 SWOT / TOWS Matrix

	Strengths	Weaknesses
Opportunities	S-O strategies	W-O strategies
Threats	S-T strategies	W-T strategies

S-O strategies pursue opportunities that are a good fit to the company's strengths.

W-O strategies overcome weaknesses to pursue opportunities.

S-T strategies identify ways that the firm can use its strengths to reduce its vulnerability to external threats.

W-T strategies establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.

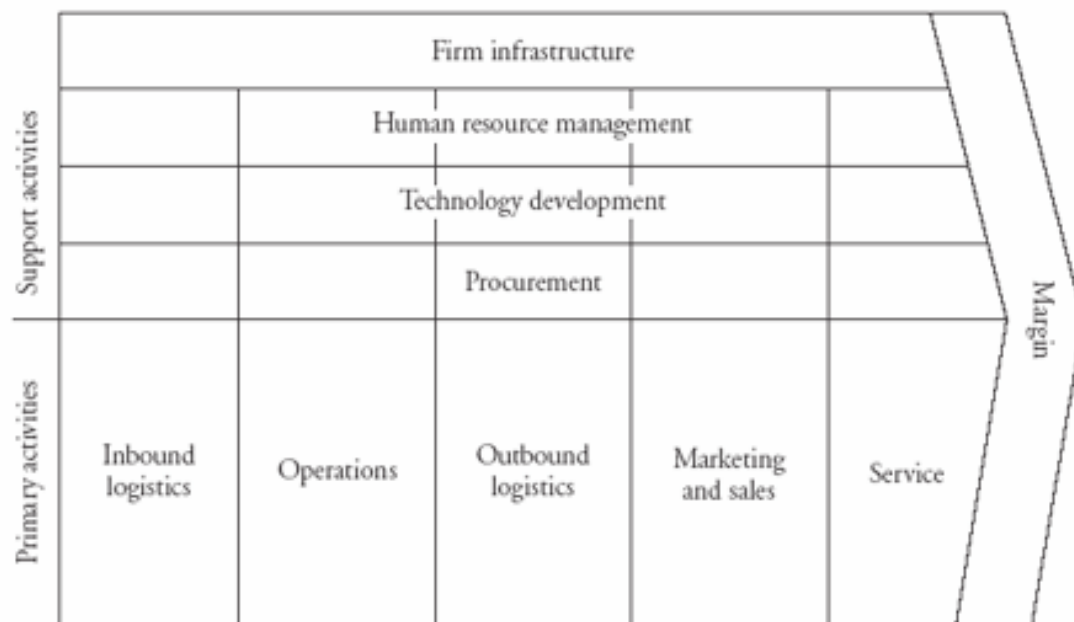
3.2 Value Chain Analysis

The activities through which a firm develops a competitive advantage and creates shareholder value, it is useful to separate the business system into a series of value-generating activities referred to as the value chain (Hall 1992). In

his 1985 book *Competitive Advantage*, Michael Porter introduced a generic value chain model that comprises a sequence of activities found to be common to a wide range of firms. Porter identified primary and support activities as shown in the following diagram:

3.2.1 Porter's Generic Value Chain

Table 3.3 Porter's Generic Value Chain



Source: Based on Porter (1985, p.37)

The goal of these activities is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin.

The primary value chain activities are:

Inbound Logistics: the receiving and warehousing of raw materials, and their distribution to manufacturing as they are required.

Operations: the processes of transforming inputs into finished products and services.

Outbound Logistics: the warehousing and distribution of finished goods.

Marketing & Sales: the identification of customer needs and the generation of sale

Service: the support of customers after the products and services are sold to them.

These primary activities are supported by:

Firm Infrastructure: organizational structure, control systems, company culture, etc.

Human Resource Management: employee recruiting, hiring, training, development, and compensation.

Technology Development: technologies to support value-creating activities.

Procurement: purchasing inputs such as materials, supplies, and equipment.

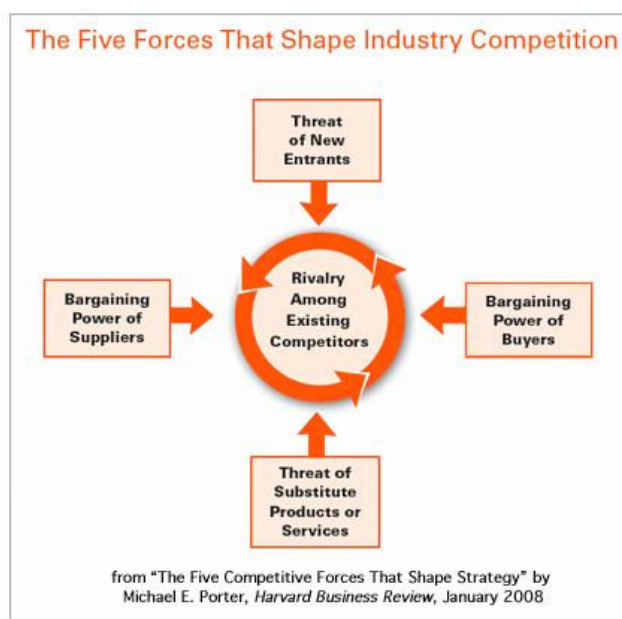
Value chain activities are not isolated from one another. Rather, one value chain activity often affects the cost or performance of other ones. Linkages may exist between primary activities and also between primary and support activities (Hall 1992).

For instance, the case in which the design of a product is changed in order to reduce manufacturing costs. Suppose that inadvertently the new product design results in increased service costs; the cost reduction could be less than anticipated and even worse, there could be a net cost increase. Sometimes however, the firm may be able to reduce cost in one activity and consequently enjoy a cost reduction in another, such as when a design change simultaneously reduces manufacturing costs and improves reliability so that the service costs also are reduced. Through such improvements the firm has the potential to develop a competitive advantage.

The firm's margin or profit then depends on its effectiveness in performing these activities efficiently, so that the amount that the customer is willing to pay for the products exceeds the cost of the activities in the value chain. It is in these activities that a firm has the opportunity to generate superior value. A competitive advantage may be achieved by reconfiguring the value chain to provide lower cost or better differentiation.

3.3 Porter Five Forces Analysis

Table 3.4 Porter Five Forces



The extremely successful five forces framework proposed by Michael Porter was wholly oriented towards industry analysis, and had really next to nothing to say about firms' strengths and weaknesses. In fact, as in Porter's five forces framework (Porter, 1980), it is a key idea that value is rather continuously subject to a complex bargaining game that is being played between suppliers, customers, new entrants, substitutes, and rivalry amongst existing players.

The Five Forces Analysis allows determining the attractiveness of an industry. It provides insights on profitability. Thus, it supports decisions about entry to or exit from an industry or a market segment. Moreover, the model can be used to compare the impact of competitive forces on the own organization with their

impact on competitors. Competitors may have different options to react to changes in competitive forces from their different resources and competences (Porter, 1980). This may influence the structure of the whole industry.

In combination with a PEST-Analysis, which reveals drivers for change in an industry, Five Forces Analysis can reveal insights about the potential future attractiveness of the industry. Expected political, economical, socio-demographical and technological changes can influence the five competitive forces and thus have impact on industry structures. Useful tools to determine potential changes of competitive forces are scenarios.

With the knowledge about intensity and power of competitive forces, organizations can develop options to influence them in a way that improves their own competitive position (Andrew 1987). The result could be a new strategic direction, e.g. a new positioning, differentiation for competitive products or strategic partnerships.

The Model is based on microeconomics. It takes into account supply and demand, complementary products and substitutes, the relationship between volume of production and cost of production, and market structures like monopoly, oligopoly or perfect competition. Thus, Porter's model of Five Competitive Forces allows a systematic and structured analysis of market structure and competitive situation (Porter, 1980). The model can be applied to particular companies, market segments, industries or regions. Therefore, it is necessary to determine the scope of the market to be analyzed in a first step.

After the analysis of current and potential future state of the five competitive forces, managers can search for options to influence these forces in their organization's interest. Although industry-specific business models will limit options, their own strategy can change the impact of competitive forces on the organization. The objective is to reduce the power of competitive forces.

3.4 Diversification and relatedness of resources

Table 3.5 Diversification and relatedness of resources

Sharing: Operational relatedness between businesses	High	Related constrained diversification Vertical integration (market power)	Both operational and corporate relatedness (Rare capability and can create diseconomies of scope)
	Low	Unrelated diversification (Financial economies)	Related linked diversification (Economies of scope)
		Low	High

Corporate relatedness: Transferring skills into
businesses through corporate headquarters

Source: Hanson et al (2008), *Strategic Management: Competitiveness and Globalization*, Thomson: Australia, pp. 182.

Using the value-creating diversification model, the vertical axis of the two-by-two matrix indicate firms' opportunities to share operational activities between portfolios while the horizontal axis denotes opportunities for transferring corporate level core competencies. More often than not, different diversification strategies correspond with different sets of economic benefits. Firms engaged in related diversification can realize benefits from value creations such as economies of scope (Chang & Singh1999). This is achieved through high levels of operational and corporate relatedness, thus increasing market power.

The lower right quadrant denotes a related linked diversified firm with highly developed corporate capability for transferring core competencies across businesses. This capability is located in the corporate headquarter office where it

has access to more detailed information than external market such as investors do, and it may distribute capital to business divisions to create value for the overall company. Related diversification develops and exploits economies of scope between its businesses, with greater amounts reducing managerial risks and aiding firm's growth (Chang & Singh1999).

As noted by Williamson (1975), diversification essentially transforms organizational arrangements that regulate capital allocation through the internalization of functions that would otherwise be carried out by financial institutions. Furthering this, he argues that the establishment of internal capital markets in diversified firms can bring about efficient capital allocation and reduce wasteful investment at lower cost. This prevents irrational deprivation of capital resulting from cyclical ties and investment fads (Henderson 1970, 1979).

Diversification studies may arguably be where the resource-based approach has had the greatest impact (Hall 1992).. Firms gradually accumulate excess resources as a (non-intended) consequence of their normal operations. Tasks become routinized and this releases human resources, such as managerial resources; some physical resources are indivisible, which means that they may not be fully exploited in their present use. In principle, these resources could be traded over markets. Examples of resources are: brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures, capital, etc.

The idea that multiproduct firms benefit from non-financial linkages such as joint costs has received renewed attention, mainly through the formalization of the economies of scope concept. It turns out that the resource based perspective provides a basis for addressing some key issues in the formulation of strategy for diversified firms, such as:

- a. On which of the firm's current resources should diversification be based?
- b. Which resources should be developed through diversification?
- c. In what sequence and into what markets should diversification take place?
- d. What types of firms will it be desirable for this particular firm to acquire?

The major rationale for the existence of related diversified companies and for the pursuit of related diversification by the management is based on the concept of "relatedness" between the different businesses of a diversified corporation (Hall 1992). Certain types of relatedness can be exploited to achieve a competitive advantage of the "diversified related business company" over single business competitors. The multitude of competing, overlapping or simply unrelated concepts of relatedness and competitive advantage in the literature can be assigned to four different lines of thought: the "traditional" approach to tangible operational relatedness as proposed by industrial economists; the competence and knowledge based approach to relatedness emphasized in resource based management theory; the market power version of relatedness; the fourth approach is an attempt to define a form of "strategic relatedness" based on the strategic similarity of businesses.

3.4.1 Relatedness based on tangible operational and market linkages

The most widely accepted rationale and perceived competitive advantage for a 'related diversified multi-business firm' is usually found in a number of tangible relationships among its business units (Hitt, Hoskisson & Kim 1997). They share activities in the value chain among related business units due to the presence of common buyers, channels, technologies and other factors. Such tangible relationships in activities, for instance in procurement, production, marketing and sales, may lead to competitive advantage if sharing leads to lower unit cost or even enhances differentiation of the businesses' products.

One important type of market relatedness is that of complementary products. Three strategic practices regarding complements can be distinguished (Porter 1985, 417):

- (i) Controlling complements, which concern simply the primary question, whether the firm wants to offer complementary products itself or leave to the other firms.
- (ii) Bundling, indicating that the firm sells separable products or services to buyers only as a package, a bundle.

(iii) The strategic idea behind cross- subsidization is for firms to deliberately sell one good at low profit or even at a loss in order to sell more profitable items.

The selling of complements and bundling is one important rationale for diversification and has many important strategic implications regarding cost and differentiation position (Nayyar 1990).

3.4.2 Relatedness and the cross-business transfer of competences and knowledge

The resource-based view of the firm see mainly the intangible resources, such as know-how and particular capabilities or competences as the basis for decisions on corporate portfolio building, diversification and divestment decisions (Hitt, Hoskisson & Kim 1997).. As the cost of developing such a competence has already been incurred, and because competencies based on intangible resources are less visible and more difficult to understand and imitate, transferring these competencies from one business unit to another one or using the competency to enter a new business field may save costs and enhance competitiveness (Javidan 1998).

3.4.3 Relatedness as the basis for market power based rents

Diversification may not only enhance profitability by increasing efficiency or differentiation, but also by creating market power and/or limiting the intensity of the forces of competition (Panzar & Willig1981). The large diversified corporation may have an advantage over the specialized firm in several respects;

(i) Comparable to global firms that can finance competitive battles in individual countries through cross-subsidization diversified firms may use size and diversity to drive out more specialized competitors from particular product markets through cross-subsidization and predatory pricing (Javidan 1998); moreover, the firm that has developed a reputation for toughness through carrying out predatory acts once may deter the entry of other competitors to the particular product market.

(ii) Reciprocal buying arrangements may allow a diversified company to use its buying power across its many businesses to give preference to suppliers, who become loyal customers for another of the company's businesses.

(iii) Again comparable to global firms large diversified companies may have more options for action and thus more power vis-a- vis societal stakeholder groups (Hitt, Hoskisson & Kim 1997).

(iv) The provision of complementary products by a diversified company may not only differentiate it in the sense of meeting customer preferences, but also give it a position of power due to significant switching cost for the customers who have become dependent on the "total solution" provided (Nayyar 1990).

(v) Finally, the research on multimarket competition has shown that multimarket competitors, due to their multiple response and sanctioning options, have a tendency to refrain from aggressive action as 'focal points' or natural equilibrium points for competition may be more prevalent. The generally more collusive behaviors among diversified multimarket competitors can thus improve profitability for diversified firms (Henderson 1979).

3.5 Competitive Strategies- Cost Leadership and Differentiation

3.5.1 Cost Leadership

The value chain model is a useful analysis tool for defining a firm's core competencies and the activities in which it can pursue to achieve a competitive advantage; such as:

Cost advantage: by better understanding costs and squeezing them out of the value-adding activities. Porter identified 10 cost drivers related to value chain activities:

Economies of scale

Learning

Capacity utilization

Linkages among activities

Interrelationships among business units

Degree of vertical integration
Timing of market entry
Firm's policy of cost or differentiation
Geographic location
Institutional factors (regulation, union activity, taxes, etc.)

A firm develops a cost advantage by controlling these drivers better than do the competitors.

3.5.2 Differentiation: by focusing on those activities associated with core competencies and capabilities in order to perform them better than do competitors.

A differentiation advantage can also arise from any part of the value chain. Differentiation stems from uniqueness which may be achieved either by changing individual value chain activities to increase uniqueness in the final product or by reconfiguring the value chain. Porter identified several drivers of uniqueness:

Policies and decisions
Linkages among activities
Timing
Location
Interrelationships
Learning
Integration
Scale (e.g. better service as a result of large scale)
Institutional factors

Many of these serve as cost drivers however differentiation often results in greater costs, resulting in tradeoffs between cost and differentiation.

There are several ways in which a firm can reconfigure its value chain in order to create uniqueness. For instance, it can forward integrate in order to perform functions that once were performed by its customers, it can backward integrate in

order to have more control over its inputs, it may implement new process technologies or even utilize new distribution channels. Ultimately, the firm may need to be creative in order to develop a novel value chain configuration that increases product differentiation.

3.5.3 Analyzing Business Unit Interrelationships

Interrelationships among business units form the basis for a horizontal strategy (Andrew 1987). Such business unit interrelationships can be identified by a value chain analysis. Tangible interrelationships offer direct opportunities to create a synergy among business units. For example, if multiple business units require a particular raw material, the procurement of that material can be shared among the business units. This sharing of the procurement activity can result in cost reduction. Unfortunately, attempts to achieve synergy from the interrelationships among different business units often fall short of expectations due to unanticipated drawbacks. The cost of coordination, the cost of reduced flexibility, and organizational practicalities should be analyzed when devising a strategy to reap the benefits of the synergies.

3.5.4 Outsourcing Value Chain Activities

A firm may specialize in one or more value chain activities and outsource the rest. The extent to which a firm performs upstream and downstream activities is described by its degree of vertical integration. A thorough value chain analysis can illuminate the business system to facilitate outsourcing decisions. To decide which activities to outsource, managers must understand the firm's strengths and weaknesses in each activity, both in terms of cost and ability to differentiate. Managers may consider the following when selecting activities to outsource; whether the activity can be performed cheaper or better by suppliers or if the activity is one of the firm's core competencies from which stems a cost advantage or product differentiation (Casper, Hester & Alex 2007).

The risk of performing the activity in-house is when the activity relies on fast-changing technology or the product is sold in a rapidly-changing market, it may

be advantageous to outsource the activity in order to maintain flexibility and avoid the risk of investing in specialized assets. The decision to outsource an activity can result in business process improvements such as reduced lead-time, higher flexibility and reduced inventory (Casper, Hester & Alex 2007).

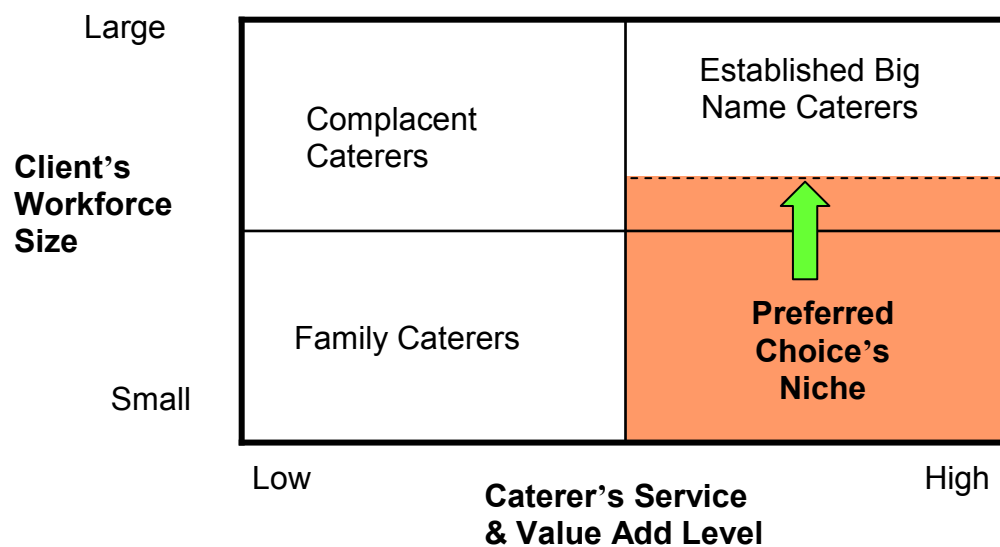
Chapter 4: Company Business & Growth Objectives

4.1 Overview of Preferred Choice Food Company

Preferred Choice Food Company is directly involved in the institutional food catering industry, cooking up meals for more than 2500 in-house employees per day at various MNCs in the electronics and local hospitality sectors. Since 2008, it has grown from strength to strength, employing 32 staff ranging from chefs, cooks, kitchen helpers and cleaners. Currently PCFC operates 5 decentralized kitchens and 1 centralized kitchen for offsite cooking and contingency cooking requirements.

PCFC was started to provide an even greater focus and value to customer's food service needs. In the institutional food service market, there are mainly established national/global players and majority of family run service providers. The problem was that established players mainly focused on the high value customers, those that are willing to pay premium subsidies or have sufficient employee size to provide volume sales, while family caterers could not provide the range of value added services that organizations come to expect of, leaving the low/mid value customers out in the cold, refer to Table 4.1 Preferred Choice Food Company Niche Matrix.

Table 4.1 Preferred Choice Food Company Niche Matrix



Source: PCFC Company Documents

Armed with more than 12 years of operational experience and invaluable knowledge in the institutional catering industry, PCFC was able to capitalize on this niche and started out by creating a consistent brand, provided personalized and value added services similar to the 'big boys'. PCFC target market segment would than be small to medium size companies with in-house meal provisions for employees, and so far have been quite successful.

4.2 PCFC Competitive Environment

With the economy coming back on track, there is now the slow but steady increase in food supply prices, margins will become thinner while there will be increased competition from new entrants. Traditional commercial caterers see the stable returns in the institutional market and would want to cash on its fairly lucrative offerings to try to fully utilize its capacity and resources to boost overall revenue and in-turn profits (Casper, Hester & Alex 2007).

PCFC is competing in the arena where the "big boys" play, institutional food service providers in Singapore range from the largest multinational food service and facilities management companies in the world to government-linked

organizations that monopolize government and corporate institutions due to global contract tie-downs and local state interest in this industry.

It is hard to believe that Singapore having such limited land area and market size would have such a strong presence of established players. But due to its limited natural resources, economic growth in Singapore derives strongly from overseas investments in manufacturing, servicing, R&D and there are approximately over 7000 MNCs in Singapore. In 2009, the investment commitments in manufacturing & services from global investors totaled up to \$11.7 billion and value added from the same sector contributed \$44 billion. The number of manufacturing establishments in 2008 was 8166 and employed over 400,000 workers, this sector makes up most of the revenues for institutional food providers in Singapore and therefore has attracted the likes of major multinational food service businesses.

Multinational Food Service Companies are essentially oligopolies from the stable economies of North America and Western Europe and have traditionally competed in the following ways:

- 1) Increasing market share with marketing and new product programs in the 1970s and 1980s
- 2) By expanding internationally through buying up domestic competitors and merging with organizations with a strategic fit

They are able to offer a range of exposures to skills, cultures, experience, commerce, technology and experience from a collection of experts in the array of necessary disciplines. Above all, they have access to markets and skills in different continents through M & A activities with national players (Dobson, Paul, Starkey, Kenneth, Richards & John, 2004).

The largest institutional food service businesses with a presence in Singapore include Sodexo Alliance, Compass group through purchase of local player Stamford Catering, ISS World through purchase of local company Woko catering,

and all them entered only in the last couple of years. These are global players and have broader customer base in different sectors (including commerce, industry, healthcare, government bodies and education, etc). However, due to higher staff cost and operating expenses, their focus is on customers that provide higher returns and does not usually compete on costs.

But there is one local company that has defied all odds and resisted acquisition from global players to be able to hold its own against growing competition. Select Group has grown and expanded to keep pace with globalization, and to various areas of the food service space whilst keeping its local flavor intact.

4.2.1 Examining Select Group Ltd activities and capabilities

Information gathered from <http://select.com.sg/selectgroup/>, Unified Vision Strategic Expansion – Select Group Limited, Annual Report 2009

From its humble beginnings in 1991 as a home cooked food caterer, Select Group Ltd has since been listed on the Singapore stock exchange in 2004 and has been the leading food service provider for over a decade. Achievements include, Top 500 SMEs in Singapore in 2000, awarded ISO 9001 and ISO 22000 in 2002 and 2008 respectively, Awarded Singapore Service Class in 2004.

4.2.1.1 Select Group's Objectives

Select Group's vision is to be the market leader in the food service industry in Asia; continually offering quality food and services to our customers. By researching and developing creative, tasty and healthy food as well as providing a safe and cultured working environment to nurture talents to equip them with professional skills and in return provide to the society.

4.2.1.2 Select Group's Strategy

From the very start, Select sought to establish a strong brand presence in institute, commercial catering services and once that was achieved, it then

moved on to retail food management industry and now it has also included Hotel Management under its portfolio.

The Businesses Groups of this integrated food catering and management services provider comprises three divisions:

1) Institutional Catering

Provide food management services to corporate customers. Operate and manage staff cafeterias on contract basis at the premises of corporate customers. Provide value-added services include menu planning, operation and maintenance of food service and facilities, advice and technical support and design and layout of staff cafeterias and kitchen. In addition, offshore catering capabilities was recently included to support plans for international expansion to countries like Suzhou, China, Malaysia and Thailand

2) Commercial Catering

Events catering services for corporate, community or private functions. Daily meal delivery services to workplaces and family units all serviced through a centralized 4600 sq m kitchen. Started from 3 separate smaller kitchens located in the east, northeast and central parts of Singapore.

3) Food Retail

Operates 40 dedicated food court stalls and 2 public cafeterias specializing in international and local fare. In addition, 2 restaurant chains in Singapore that serves casual Thai cuisine and Chinese fine dining as well as 1 dessert chain and 1 fast food chain franchise.

4.2.1.3 Select Group's Assumptions

Select has taken more than a decade before it branched off to retail food service and went public, two for it to reach to this level where it has now formed a group

of food services. A trend now is also for food service companies to offer increasing brands and cuisine choices under one umbrella, to capture more market share and boost revenue streams (Casper, Hester & Alex 2007). Select group has obviously great confidence and expectations of Singapore's food service and the tourism industry boosted by the two integrated resorts; with the recent acquisition of a Chinese fine dining chain and management of a high-end business boutique hotel. It too has expanded regionally in its institutional catering arm; recognizing the opportunity that Asia provides with its still relatively low but growing outsourcing rates for food service contracts.

4.2.1.4 Select Group's Resources and Capabilities

The group manages a team of over 700 staff trained in all aspects of the food service and hospitality industry. It has built up a strong brand presence across the whole group, from institutional catering, commercial and food retail, all synonymous with quality and efficiency. It now has the operational capabilities to support meals for large groups and offshore locations, experience in serving low to high end food retail and hospitality customers, while has the ability and know-how to expand internationally for any of its food service brands.

4.2.2 Summary

Utilizing the framework from competitor analysis, the key attributes to Select Group's success could be identified and predict any competitive response if required. But if PCFC were to benchmark a company, this would be it, where both companies share similarities during the onset of starting up and initial growth through related diversification (Dobson, Paul, Starkey, Kenneth, Richards & John, 2004). Select group main success is attributed to:

Set out very clear objectives in offering quality food and service from the onset together with strong branding presence

A people oriented organization

Continued to be on the lookout for trends and developing innovative food service concepts locally while building up its competency base

Expanded overseas on its core institution business

Strong financial strength for growth and expansion through its public listing

4.3 Objective of Firm and Growth - PCFC

PCFC initial step into institutional food service was to first satisfy a market need but more importantly to also lay a stable footing for growth and expansion in the food service industry. This base is the gradual build up of experience and know-how of catering to thousands and the setup of an all important centralized kitchen, which gives it the possibility and capability of supporting various other food operations available in the Food Service Industry. The short lifespan of F&B products and the intense competition in the sector has made it an imperative for businesses to innovate quickly to cater to changing consumer tastes; this dynamic environment is perfect for the entrepreneurial and the creative (Casper, Hester & Alex 2007). Most recently, chocolate bars, bistro bars, hand-pulled noodle restaurants and molecular gastronomy are just some of the new additions to the food scene.

PCFC objective from the very beginning was to be able to offer a wide array of food service choices to consumers, be it retail, institutional or commercial. Institutional catering once stable could pave the way for more aggressive and risky expansion, but the main consideration to enter must be some form of innovation or differentiation from other food service choices and also with some mass market appeal.

PCFC's Vision is to ascend to the highest peaks to become the top food service provider in the region. Constantly develop innovative food products and services for the best customer experience.

PCFC's Mission Statement is committed to the highest customer excellence, providing quality and professional work in all aspects of our business. We recognize that people are our greatest asset and by fostering mutual respect, trust and benefit, we are able to offer the best services and value to our customers.

4.4 SWOT Analysis of PCFC

The full SWOT analysis of PCFC is presented in Appendix A, summarizing the key issues from the business environment and the strategic capability, including resources and competence that are most likely to impact on strategy development.

Table 4.2 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none">- Growing customer base and ability to provide the best value proposition- Economies of scale in procurement.- Brand Equity- Customer Flexibility	<ul style="list-style-type: none">- Insufficient standardized workflow and procedures- No certification for food safety- Contracts usually last for 2 to 3 years- Low Entry Barriers- Cash and Procurement control
Opportunities	Threats
<ul style="list-style-type: none">- Increasing number of MNCs and government institutions to outsource catering services to third party service providers across Asia- Huge potential in convenience food market and other food service types offering world cuisines and creative menus/ambience	<ul style="list-style-type: none">- Competition in food and beverage industry- Third person liability from food poisoning.- Possibility of disease outbreak in livestock / community.

4.5 Value Chain Analysis of PCFC

The value chain for PCFC being a startup company is highly simplified due to its small organization size and structure. Operations and Sales would make up the key activities on the company; manpower is mainly distributed and concentrated in these areas with the directors of the company in-charge of the other support and primary activities. This sets up a lower cost structure over the bigger competitors. Table 4.3 shows the Value Chain Analysis elements for PCFC.

Table 4.3 The PCFC Value Chain

	Firm Infrastructure				Margins
Human Resource Management	Recruiting		Recruiting		
	Training		Market Research		
Technology Development	Payment Systems		Sales Aids & Literature		
Procurement	Food Supplies				
	Kitchen Equipment				
	Utensils, crockery				
	Gas & utilities				
	Vending Machine				
	Other equipment				
	Storage				Margins
	Washing				
	Process/Cooking				
	Recipes and pre-packed sauce & paste				
Inspection		Serving	Advertising		
Re-packing		Cleaning	Promotion	Value added activities/ promotion ideas	
			Sales		
Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service	

Analyzing the value chain for PCFC and in order for Preferred Choice to achieve the cost leadership advantage for a start up company to compete against established 'big boys', the main cost drivers to focus would include manpower and suppliers from food to equipment.

In terms of manpower, PCFC must work to provide the leanest workforce in order to support operations without sacrificing service levels, therefore staff must be trained to carry out multiple roles, have a strong training and customer service program in place, empowerment given and sufficient

benefits to keep them motivated and efficient. In terms of procurement, it is currently achieving economies of scale through its 5 outlets but as identified by SWOT, would have to work with the entire range suppliers for extended contracts to enjoy further cost advantages.

But for sustainability of its competitive advantage (Dobson, Paul, Starkey, Kenneth, Richards & John, 2004), certain level of differentiation has to take place over just low cost as it is very vulnerable to external environments. The potential for differentiation for PCFC as from the value chain exists in its recipes and pre-packed sauce and pastes. The recipes provide the final taste of its food products and pre-packed sauce and paste ensures consistency and taste, increasing the value to customers. PCFC can control consistency for up to 30% of the menu items and it can look to increase that with greater R & D efforts. The other item of higher perceived value would be its personalized and value added service. PCFC aims to create 'A Refreshing Cafeteria Experience', meaning other than just supplying cooked food, it has the capability to arrange value added services ranging from social to wellness events, organize healthy eating and lifestyle food promotions for customers and patrons. PCFC can probably further improve on this through activities to invoke senses of sight, sound and smell during meals, e.g. carnival atmosphere or utilizing creative imagination to come up with unique events and promotions that would be fun yet helpful to individuals. Another aspect it can add to the experience is back to the basics to create a family like environment where everybody feels like home when they enter the cafeteria.

4.6 PCFC Competitive Advantage

PCFC has been able to gain market share because it has not gone head-on with established competitors and focusing on smaller organizations. PCFC's value principle has provided cost advantages to customers by working with strategic suppliers and its core competencies of perfected and repeatable recipes to ensure taste and consistency coupled with value added programs to provide a total food solutions management that has given it differential advantages.

4.7 PCFC Capability Comparison and to Achieve Sustained Competitive Advantage

4.7.1 PCFC Capability Comparison

A comparison was done with established and local players (family caterers) on their offerings and capabilities to further strengthen the results from SWOT and Value Chain Analysis to determine the immediate steps needed from PCFC to bolster its competitive position and to be a truly world class institutional food service provider.

Table 4.4 Comparison with other catering service providers

	PCFC	BIG BOYS	LOCAL PLAYERS
1. Market position	Mid/low	High/mid	Mid/low
2. Cooking style	Western/Local/Asian	Western/Local/Asian	Western/Local/Asian
3. Avg. price per meal S\$	2	2.2	2
4. Current daily output in (sets of meal)	4000	up to 30,000	100 to 5000
5. Value-added services	XXXXX	XXXXX	XXX
5. Flexibility	XXXXX	XX	XXXXX
6. Certification for business process and food safety	XX	XXXXX	X
7. Bargaining power with suppliers and customers	XXXX	XXXXX	XXX
8. Brand awareness	XXX	XXXXX	X
9. Add-on facility services	XX	XXXXX	X
10. Central processing	XXX	XXXXX	XX

Source: PCFC Company Documents

Note: X – the worst, XXXXX- the best

4.7.2 To Achieve Sustained Competitive Advantage

1) Client demands: better quality, single partner

Throughout the world, the food service industry is moving from standard menus and services to customized service and client convenience. For reasons of economic efficiency and quality assurance, multinational clients want to outsource more of their non-core segments like, facilities management and IT maintenance to a main party to manage. PCFC could select strategic partners with similar competitive attributes that offer superior

cost and value to offer a total service solution without the need to diversify into areas out of the food industry, yet.

2) Branding: move towards clear positioning

Food service companies are gaining market share by display their brands more prominently, moving away from traditional undifferentiated position of being almost anonymous to the end user. The reputation of established global and national players has always been crucial in acquiring and maintaining clients, their brands as promise of food service quality are increasingly important for consumer satisfaction. PCFC has to offer a complete marketing package that communicates a recognized and consistent identity to the customer, company logos to be donned throughout its communication channels; professional, quality and customer focus to be instilled in all activities and services. Build up of PCFC in-house cuisine brands is also necessary to create consistency across outlets and also an external foodcourt/café experience.

3) Food Safety: Its growing importance

Most contracts are awarded through open tenders and price is usually not the only element in determining which catering service provider to be appointed. Given health of workers will affect the productivity and recent negative news of food poisoning cases in a local hawker center that led to 2 deaths, and affected 146 people out of which 48 were hospitalised (Channel News Asia April 2009), food safety is a major consideration. Other factors under consideration include brand name, track record, food quality and food varieties. Hazard Analysis Critical Control Point (HACCP) has to be instilled and strongly emphasised to employees and promoted to customers. Commitment to high standard of food safety will win customer confidence and help build brand quality specially critical when PCFC is competing with established global competitors.

4) Standardized workflow and procedures

As the customer base grows, time control and workflow schedule becomes crucial. PCFC needs to implement an ISO 9k structure to ensure standardization and quality control that would bring about several advantages and increased brand equity (Dobson, Paul, Starkey, Kenneth, Richards & John, 2004).

Such high level of standardization has several advantages:

- a) efficient and effective operation will enhance margins
- b) scalable business model that facilitates geographical expansion to gain market share
- c) consistent and high food quality
- d) reduce reliance on skilful workers/ chefs allowing for more flexibility
- e) increased customer service focus across the value chain

5) Centralization: food operations and purchasing

All procurement and food processing are centralized to achieve economies of scale; save production costs, effectiveness and efficiency and guarantee of food safety. With HACCP and ISO certification, processing procedures and logistic arrangements are standardized to comply with ISO for efficiency and consistency, HACCP standard for food hygiene and safety.

6) Renegotiate for Long-term contract

Contract terms with most customers and suppliers last 2 years or the most 3 years. PCFC will need to sign and negotiate for more service and supplier contracts which will usually last >3 years with some level of investment and commitment. This will further secure earnings growth and increase cost competitiveness. Currently, most kitchen facilities and utensils at the catering sites are provided by the clients. PCFC can propose to invest in these kitchen facilities at customers' sites to win longer contract terms.

7) Innovative Value Added Activities

Traditional institutional service was just about food but nowadays providing good food is not sufficient in this highly competitive arena. Differentiating through value add activities has to be moving on with the times on themes and items that customer's most desire, from social to health needs etc. These could also help to carry the load of customer's HR department on incentives for employees. Some level of creativity and trend spotting is required in order to create enjoyable on and off cafeteria experiences through activities and promotions planned (Dobson, Paul, Starkey, Kenneth, Richards & John, 2004).

8) Upgrading of the Workforce: Focus On Customer Service Training and Development of Staff Skills

The advantages of skills and service upgrading for staff are two fold: one is the increase of self-worth with respect to the company and motivation, second is the increase of customer service levels. To decrease the cost burden, the Singapore government has always identified and recognized skills training as important areas to the growth of the industry. Under the F&B Workforce Skills Qualification (WSQ) framework, workers in the industry can now get their skills assessed and attain nationally-recognized certificates with heavy subsidies.

Chapter 5 Business Growth Opportunity Analysis and Strategy for Growth

5.1 Growth opportunities available for PCFC

International competition and diversification by firms across boundaries have meant that mature industries like in the food service which were once cozy havens for making easy profits are now subject to vigorous competition (Dobson, Paul, Starkey, Kenneth, Richards & John, 2004). This competition has also driven food service companies to expand and diversify into similar or dissimilar sectors; food service group of companies are now a common place

for expanded growth and increased revenues especially in a market as limited as Singapore.

PCFC has since when it first started, built a stable base in-terms of its operations and know how through contract catering. Moving along to further maximize its resources and capabilities while lowering unit costs, related diversification offers PCFC the chance to not only expand its range of foods service offerings but also 'strategic relatedness' where it enjoys further economies of scale and scope to achieve increased competitive advantages.

PCFC has various diversification routes that it can take while leveraging on its core competencies to bring it to the next level. The possible areas of growth includes businesses in food service and food processing sectors that local company groups like the Select Group and Breadtalk Group have engaged or diversified in and been quite successful at. Also other possible areas of growth include emerging trends that have been identified through analysis performed earlier.

The following areas that could be explored include:

- 1) Convenience food products manufacturing, packaged pre- cooked food, paste and sauces
- 2) Commercial catering serving to consumers and individuals
- 3) Food retail that includes restaurants and cafes
- 4) Overseas expansion of Institutional catering sites
- 5) Managing of food courts and "coffee shops"

5.2 Five Forces Matrix Analysis on Growth Opportunities

The 5 areas of possible growth will now be analyzed to determine the top business opportunity to undertake. The five forces from Micheal Porter's renowned five forces analysis will be used together with practical factors of Start-up costs, Profit potential and Leverage of Resources and Capabilities to rank the various business opportunities.

The five forces include:

- The rivalry between existing sellers in the market.
- The power exerted by the customers in the market.
- The impact of the suppliers on the sellers.
- The potential threat of new sellers entering the market.
- The threat of substitute products becoming available in the market

With a clear understanding of where power lies, it will enable PCFC to take fair advantage of its strengths, improved weaknesses, and avoid taking the wrong steps for growth. Therefore, it is important to understand the situation and to look at each of the forces and factors individually.

The initial step for this analysis consists of taking relevant components for each growth opportunity and then check against the components of each force and each factor. The next step will be based on assigning of "+" or "--" signs for the forces and factors that are in each growth opportunity's favour, or for a force or factor that is strongly against. The number of positives will be totalled to provide the basis of comparison and the top ranked will be chosen.

Once identification of the top ranked opportunities is completed, it is important to analyse the competitive strength that PCFC can achieve with the new business unit and the ability to eventually make sustained profits in the industry.

Table 5.1 The Five Forces and Additional Factors Matrix

	Suppliers	Buyers	New Entrants	Substitutes	Rivalry	Setup Cost	Leverage ability	Profit	Total
Commercial Catering	+	-	-	-	-	+	+	+	4
Convenience Foods	+	-	-	-	-	-	+	+	3
Food Retail	+	-	-	-	-	-	+	+	3
Over seas Expansion	-	-	-	+	-	-	-	+	2
Operation of foodcourt and coffee shop	-	+	+	-	-	-	-	+	3

From Table 5.1, it can be seen that commercial catering has emerged with the greatest number of positives while the sectors of convenience foods, food retail and operation of food courts share similar numbers at 3 each. Being the lowest at 2, the opportunity for overseas expansion would thus be eliminated.

For a young startup company like PCFC, growth opportunities would have to reflect the most conservative, natural, straightforward and immediate, implementation time frame of no more than a year. Meaning major considerations of setup cost and ability to leverage of current resources and capabilities are important. Therefore the area of food retail which brings with it too much business risks due to its high startup and operating costs would have to be disregarded, for now. Operation of Food Courts and Coffee Shops also come associated with huge sums of investments but more importantly it is the inability to leverage internal resources and capabilities that makes it not feasible, moreover it involves high setup costs instead of a reduction of unit cost. The full matrix analysis can be found in Appendix B.

Therefore the immediate growth opportunity for PCFC to embark on would be commercial catering while convenience foods manufacturing should be considered if the conditions allow.

5.3 Commercial Catering and Competitive Strategy

Commercial catering has so far met the requirements of expansion with minimum outlay yet provide the maximum amount of return through its high profit margin at 19% (Singapore Department of Statistics 2008).

Fixed costs like labor and rental is further shared with PCFC institutional food service arm, potentially exploiting economies of scope in reducing operating costs, which can contribute both to higher margins and to more attractive prices for both sets of customers in the institutional and commercial space. Of course, providing more attractive prices to customers increases the opportunity to win customers in the competitive market (Tan 2002). In terms of intangible resources, PCFC has built a fairly strong brand reputation in the institutional industry; there is now the strong incentive where the introduction of related services in commercial catering, it can at the same time exploit the same brand equity. An added advantage for PCFC is also the ability to expand economies of scale by producing increasing output across multiple products.

5.3.1 The Commercial Catering Industry

Commercial (public) Catering is a big industry and is one of the fastest growing food service segments in Singapore. The industry has a big market for new entrepreneurs which also mean there is a fair bit of competition. As in the overall food industry, it is marked by shrinking revenues and growing costs. The choice of innovation of menu choices, architecture and additional services is one strategy to differentiate. But most importantly sound cost management is of critical importance for solid stream of revenues (Dobson, Paul, Starkey, Kenneth, Richards & John, 2004).

Table 5.2 shows the main business costs contributions are from F&B purchases and Employee remuneration. PCFC is able to manage these costs quite well with the advantage of scale and scope economies from its current business.

Table 5.2 Main Business Costs Catering (2008)

Type Of Cost	% Of Cost
Food & Beverage Purchases	32.3%
Remuneration of Employees	28.5%
Rental of Premises	4.3%
Utilities	3.9%
Depreciation	3.2%
Advertising	0.4%
Royalties & Patent/Franchise Fees	7.5%

Source: Singapore Department of Statistics

5.3.1.1 Market Analysis

Market Size

In 2007, there were 254 catering establishments and in 2008 saw an increase of 11% to 284 establishments and operating receipts increased by 4% over the same period .

Table 5.3 Catering Industry Market Information (2008)

Number of Establishments	284
Number of Workers	4,832
Operating Receipts	S\$680 million
Operating Expenditure	S\$568 million
Operating Surplus	S\$127 million
Value Added	S\$281 million
Profitability Ratio (%)	19.0%
Average Annual Remuneration per Employee	S\$30,300

Source: Singapore Department of Statistics

Commercial catering targets the general public, anyone or organization that requires foodservice at external premises or a foodservice event with an array

of food types on offer. Singapore's population is at 4.9million with an annual growth of 3.1%, there are a total of 16414 businesses with 20 employees or more and Singapore attracts nearly 10 million tourists annually. Singapore is a leading centre for exhibitions, meetings and conventions and with the Integrated Resorts opening and various sporting events like the Formula 1 race, there is growing opportunities and demand for external catered foodservice.

Market Segment

From wedding catering to social events, the various catering market segments are almost endless. The main segments include: corporate segment that provides the largest revenues and are more concerned about quality than cost but that trend is also changing due to the current economic climate and competition from globalization (Tan 2002); associations segment or groups of individuals or companies that share purposes or goals and may be more conscious of cost than the corporate segment; other segment that consists of social, military, educational, religious, and fraternal groups also tend to look for costs more than the corporate or association segment.

Markets can be further analyzed to more defined or sub-segments to include Manufacturing, Construction, State Tour/Travel, Distribution, Cultural, Retail, Sports, Government, Health, Seminars, Insurance, Media.

PCFC Target Market Segment

Based on its conservative nature, PCFC should enter the commercial market in 3 broad phases. Its main market would be current institutional in-house customers, corporate, social events parties and eventually opening up to a full market but also depending on then demands and needs.

The first phase (Build-up stage): Support current in-house institutional customers with full range of Asian and local menu items for their events, seminars, conferences.

The second phase (Market Skimming): Support corporate customers within PCFC's central kitchen facility in the city with the ability to support Muslim clientele. Corporate style branding under 'Lunch Box' sets to cater mainly to lunch meetings (refreshing meals to eat at recurring lunchtime meetings) and other events in their offices (buffet, formal dinner, cocktail party). The advantage of this is business to business catering is not as cyclical as business to consumer catering. The other segment would include social events and parties with some level of customization theme, like birthdays, anniversaries, celebrations, mainly to homes, retail outlets and specialized functions

The third phase (Market Penetration): Full range of support for entire scope of segments and the provision of menu items from world cuisines. Includes provisions of chairs, tables, glassware, the works

Commercial Catering Market Trends

- Consumers are value-conscious, especially during the current economic climate.
- Consumers are health-conscious with an increasing number expecting vegetarian, dairy-free, low-fat, sugar-free and organic options to be available.

Primary Competitors

There are no known catering companies that is offering refreshing 'Lunch Box' meals that is both healthy and nutritious and there is none that is in as close a vicinity to the city to support corporate buffet parties at their office premises.

The possible competitors include:

Purple Sage Catering – High end caterer serving mainly corporate events and gala dinners

Chilli Padi Catering – Low/Mid end caterer focusing on ethnic Nonya (Chinese/Malay) cuisine

Neo Garden Catering – Mass market caterer that covers the low and high end
with ability to deliver within 3hrs from order

5.3.2 PCFC commercial catering competitive strategy

PCFC with its commercial catering is able to achieve cost leadership through economies of scale and scope; also overheads are low with the central kitchen serving up meals for institutional and commercial catering. On top of that, differentiation strategy would also be deployed through product features (color) and complementary services (theme based) with targeted marketing activities to progressively capture market share.

Differentiation will be achieved by offering a uniquely fresh and colorful catering experience. Current buffet's are boring black and white or plain stainless steel with the ordinary looking drapes to cover the tables, why not make it eye-catching with dazzling Technicolor to tie in with the theme, that could be from cartoons eg. Winnie the Pooh for kids birthday party, with matching color chaffing dishes, tables and a big honey pot containing drinks.

Chapter 6 Implementation Strategy

6.1 Marketing Strategy

Successful caterers realize that while it is important to focus on the food side of the business it is even more important to focus on the marketing side to have a steady stream of prospective clients coming in all the time. PCFC main marketing strategy will be the ability to reach and capture the customers, focusing on the corporate, associations and home customers. The main marketing objectives will be to:

- Build awareness of the PCFC brand and business (Institution and Commercial cross- selling)
- Showcase consistent high-quality meals for institution and commercial customers.

- Offer good value and a fresh experience to customers. Promote the 'Lunch Box' brand.
- Offer customer rewards and incentive promotions.

6.1.1 Promotion Strategy

PCFC should utilize a low-cost, low-visibility promotion program because of the limited ability to grow rapidly in the first year and is basically a build up stage.

First a direct email marketing campaign with purchased contacts list of potential corporate customers in the city and to continue this campaign prior to business launch, keeping potential customers apprised of development and eventually, of the menu and services offered by PCFC, including special promotions.

In parallel, the same list of contacts and residences will be targeted with direct mail promotion. This will involve a quirky brochure detailing the distinct difference between traditional boring and new fresh and colorful perspectives provided by PCFC. Also include a combination of printed advertisements and special offers with opening discounts. A group of customers will be selected for direct mailings. This strategy is expected to continue for 3 – 4 months, after which the effort will turn towards creating customer loyalty for regular customers. This strategy is supplemented by a regular marketing strategy and direct mailings to regular customers. This will be in addition to an ongoing email campaign.

Promotions involving current customers, including various marketing media and thank you cards inside each and every boxed lunch.

Cross selling between institutional and commercial is an extremely effective and cost effective way of generating awareness, since all products are targeted to serve a similar need and can be easily combined. Promotional

flyers and brochures will be distributed to existing institutional customer and patrons. In general, promotions will center on:

- Observation: a welcoming experience of high-quality and thoughtfully prepared meal service.
- Visual appeal
- Word of mouth: professionals who use PCFC service will tell their colleagues and friends tell them about PCFC service.
- Guerilla Marketing
- Fundraising and charitable gifting through food events for CSR efforts and to raise the brand awareness

6.1.2 Pricing Strategy

Because of the competitive local catering market, PCFC's pricing must reflect the value of its products and service. Prices cannot be sky high as high-end caterers, but at the same time must cover operating expenses and overheads with a industry average profit level. Economies of scale and scope will help keep PCFC prices lower than competitors.

Boxed lunches will be competitively priced with the middle-range priced caterers in town with each box priced from \$5.00 to \$10 with beverage. Minimum orders at 10 pax. Buffet styles will be also priced according to middle-range caterers from \$8 to \$30 per person with minimum orders at 30pax.

6.1.3 Product Mix

Lunch Box: Nasi lemak set (Coconut infused rice with curry and spicy condiments)

Nasi Padang set (Rice with various dishes to choose from, spicy)

Local delights set (PCFC specials spicy noodles)

Sandwich or salad set with dressing, fresh seasonal fruit, chips and a cookie

Organic set similar to sandwich set but all ingredients are organic

Buffet Style: Local delights bar (various dishes with PCFC specials spicy noodles)

Nasi Lemak bar (Coconut infused rice with curry and spicy condiments)

Sandwich wrap platters with several deli salad options, fruit, chips and dessert

Baked potato bar with toppings, macaroni salad, fruit and dessert;

Taco salad bar with fresh toppings, taco shells and fresh salsas.

Sandwich set will include 1-1.5oz. package chips with a variety of popular flavors available. Salads will come with the customer's choice of dressings, packaged on the side. Beverages will be available for purchase and will include a variety of fruit juices and soda.

6.1.4 Place (Distribution) Mix

For distribution, it is best PCFC start by partnering with a transport company and rental of delivery vehicles especially for pre-orders. At the same time a used commercial vehicle will be sourced with pre-installed food handling equipment to support corporate orders and institutional business.

6.2 Financial Requirements

A sound financial plan is the key factor for the success of a business start-up. Investors will base their funding decision on the information given in this plan.

6.2.1 Investment Plan

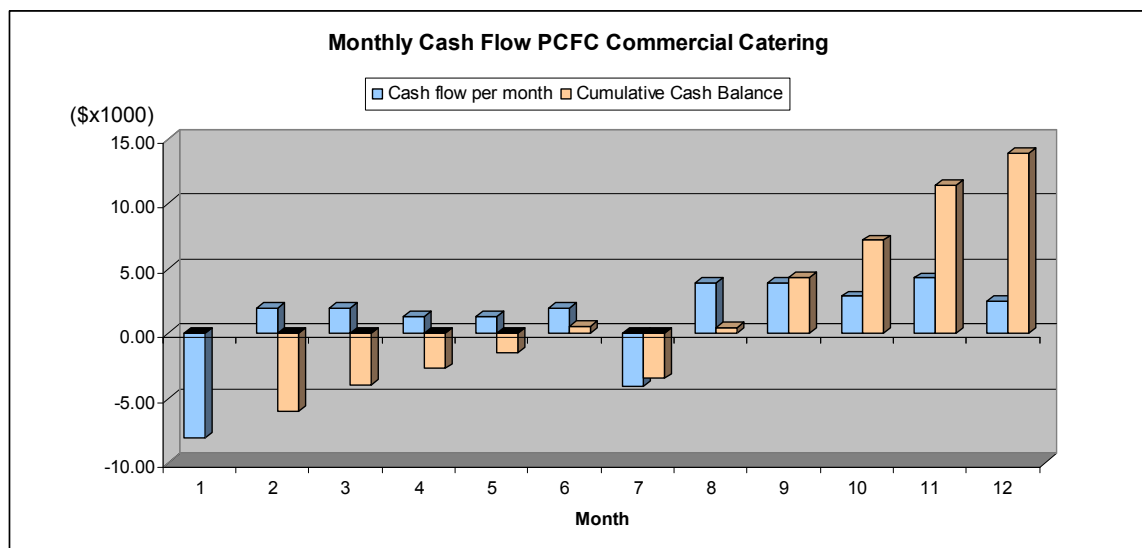
The investment plan comprises primary capital needs for the foundation and operation of PCFC commercial catering business with a selected offer of

products. The plan also includes initial marketing and sales promotions expenses. The figures are based on a business with 1 additional employee and the initial capital requirement is estimated to be \$13,000. The required investment for the propose business is low, and the startup cost includes catering related equipment cutleries, flatware, chaffing dishes, cloths and decorative items. Additional purchases will come on in Phase 2 that is about the 6mths after the start that will include commercial vehicle, manpower and catering supplies.

6.2.2 Projected Cash Flow

Cash flow projections are critical to PCFC' success. The monthly cash flow is shown in the Chart 6.1, with one bar representing the cash flow per month, and the other the cumulative cash balance. The annual cash flow figures are included in Table 6.1 and the more important detailed monthly numbers are included in the Appendix D.

Chart 6.1 Monthly Cash Flow PCFC Commercial Catering



From the cumulative cash flow it can be seen the breakeven point is during the 8th month at which revenues from sales has covered the initial investment costs. This requires that a critical amount of revenues must be generated.

Table 6.1 Projected Annual Cash Flow Figures for PCFC Commercial Catering

	Year 1.00	Year 2.00	Year 3.00	Year 4.00	Year 5.00
Income from Sales					
	106.00	150.00	200.00	300.00	350.00
Total	106.00	150.00	200.00	300.00	350.00
Cost of Goods Sold					
Food Purchase	31.80	45.00	60.00	90.00	105.00
Fixed Labour	13.50	20.00	25.00	30.00	50.00
Total	45.30	65.00	85.00	120.00	155.00
Gross Income	60.70	85.00	115.00	180.00	195.00
Fixed costs					
Rent	12.00	12.00	24.00	24.00	24.00
Utilities	0.00	0.00	0.00	0.00	0.00
Insurance	0.50	0.50	1.00	1.00	1.00
Accounting	1.50	1.50	1.50	0.50	0.50
Advertising	6.00	6.00	10.00	20.00	20.00
Interest on loan(s)	0.00	0.00	0.00	0.00	0.00
Total	20.00	20.00	36.50	45.50	45.50
Variable Costs					
Variable Employees	7.80	8.00	8.00	8.00	8.00
Repair and Maintenance	0.00	0.00	0.00	0.00	0.00
Petrol and Transportation	3.00	6.00	6.00	12.00	18.00
Kitchen Equipment	5.00	0.00	0.00	0.00	0.00
Commercial Vehicle	7.50	0.00	14.00	20.00	20.00
Others	1.50	0.00	1.00	1.00	40.00
Owner's draw	0.00	0.00	0.00	0.00	0.00
Employee CPF	1.96	2.90	3.63	4.35	7.25
Total	26.76	16.90	32.63	45.35	93.25
Total Costs	46.76	36.90	69.13	90.85	138.75
Cash Flow from Operations	13.94	48.10	45.88	89.15	56.25
" Cumulative	13.94	62.04	107.92	197.07	253.32
Less Depreciation	0.00	0.00	-10.00	-10.00	-20.00
Profit (Loss) Before Tax	13.94	48.10	35.88	79.15	36.25

From the first year as seen from Table 6.1, at a sales revenue of \$106,000 and given fixed costs, the business will generate a profit of \$13,940. Fixed costs are estimated at \$27,000 and variable costs at \$14,800.

At realizable revenue of \$200,000 after year 3, profits will rise to \$35,000 pre tax. This represents an earnings margin of 18% pre tax and about 10% after tax. These estimates are realistic in this market segment. Further increase of sales volume will increase pre tax profits. Fixed costs include overheads for use of the commercial kitchen, insurance, payroll, and marketing costs. During the first phase, catering will be done for in-house customers and the payroll cost includes the salary for one permanent part-time staff person who will manage the operation of the commercial catering business and this is

forecasted to go on for 6 months while experience is gained. During this period marketing expenses will be progressively increased for the projection of orders to start coming from the 7month under Phase 2, where additional 2 employees will be included together with additional supplies. Phase 3 would most likely start from the third year where significant increases in fixed and variable costs are seen with the inclusion of an additional central kitchen and transport requirements.

6.3 Operational Plans

6.3.1 Action Plans

The accompanying Chart 6.2 lists the schedule for important program milestones based on a one year time frame from Phase 1 to Phase 2. The milestone schedule indicates the emphasis on planning for implementation and the actions steps required by PCFC management to achieve successful execution.

Chart 6.2 Schedule and Implementation Items for Phase 1 and 2

Phase 1	Phase 1 Implementation						Phase 2 Implementation					
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Confirm startup funding												
Source and research for unique catering utensils/equipment												
Purchase catering utensils/equipment												
Arrange part time chef from other institutional outlets												
Hire chef with catering experience												
Hire part time delivery cum kitchen helper												
Work out catering menu with internal sous chef												
Training and skills development for administrative staff												
Website update for online ordering												
Engage email marketing company												
Design and Print of Marketing materials												
Phase 2												
Evaluate current resources and capabilities sufficient												
Monitor and control												
Setup customer service department												

Progressive introduction and integration of commercial catering activities would enable immediate implementation while not incurring additional resource or capability expense, at the same time this provides PCFC with ample time to fine tune capabilities required for external catering.

Phase 1 would include all activities from hiring to executing the marketing strategy. Phase 2 would consist more of monitoring and control to check if

steps taken are on track and producing the results. If not changes maybe required to change the schedule or action steps or to even changing the objective.

6.3.2 Personnel Plan

During Phase 1, current resources at PCFC central kitchen are sufficient to cater up to another 200meals per day, but serving events and seminars could easily surpass that number. This situation does not happen daily and only when a need arises, therefore as a start, arrangements for an existing chef will makeup for any additional catering requirements from institutional customers. Accordingly, an additional 2 headcount is required for cooking and delivery duties. Salary and full time status would be reviewed for both the new chef and delivery personnel if they show potential and customer focus.

Table 6.2 Personnel Plan PCFC Commercial Catering

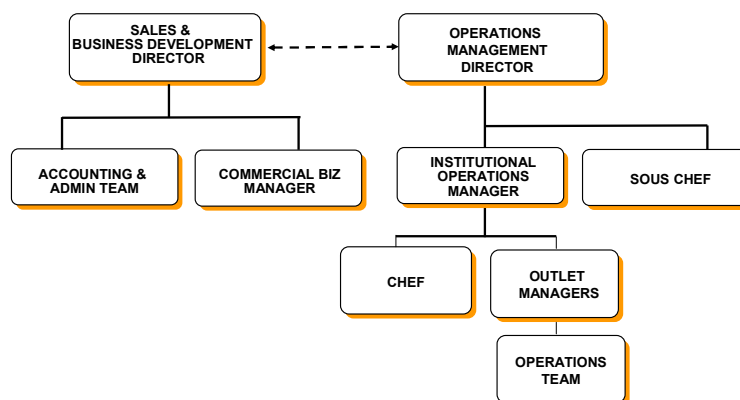
Personnel Plan PCFC Commercial Catering

	Phase 1 Implementation						Phase 2 Implementation					
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Part time Chef	\$1,000	\$1,000	\$1,000									
Permenant Full Time Chef	\$0	\$0	\$0	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500
Part time Delivery	\$0	\$0	\$0	\$0	\$0	\$0	\$800	\$800	\$800	\$800	\$800	\$800
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total People	1	1	1	2	2	2	3	3	3	3	3	3
Total Payroll	\$1,000	\$1,000	\$1,000	\$1,500	\$1,500	\$1,500	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300	\$2,300

6.3.3 Organization Structure

With the new commercial catering business, PCFC needs to provide necessary commitment and focus, especially in driving sales and customer engagement. Although these two businesses share similar attributes, there needs to be a new Commercial Business Manager and Institutional Operation Manger position (Chart 6.3) to undertake and oversee full day to day businesses, this in turn frees up more time for the directors to perform more strategic activities.

Chart 6.3 Personnel Plan PCFC Commercial Catering



Both managers will both be promoted internally while positions left by them will also be filled internally, providing progression paths for PCFC employees. The operation of this business requires a good knowledge of the catering industry, as well as a competitive concept to increase customer satisfaction. However it is critical this service is offered with a strong focus on cost management. The identified internal manager was previously from Select Catering and has sufficient experience to provide technical knowledge while emphasis will be made on managing cost and providing quality.

In the catering industry it is important that the customer experiences friendly and competent service. This will secure customer loyalty in a market that is very competitive. A critical factor in the services is quality management. Better quality at lower cost increase customer satisfaction. Deficiencies in service quality can lower demand, while good service quality can help create customer loyalty

6.3.4 Risk Analysis

Risk analysis considers critical factors that may lead to a failure of the business concept. The possible areas that PCFC would have to avoid and take note include:

1. Insufficient demand: This is the most frequent reason that leads to business failure. A critical success factor is to focus on promotional efforts so as to generate customer loyalty early on, which will help to minimize effects of demand fluctuations
2. Aware of your competitors: Competition will always be around but due to low barriers of entry for food service; business can enter the market at low cost. A better service concept or innovative ideas are easy means for an entrant to gain a competitive advantage.
3. Personnel and capacity utilization: The utilization of personnel capacity is critical for the long term profitability because of changing margins and the constraints to flexibly reduce personnel
4. Liquidity constraints: Insufficient liquidity. 5 to 10% of the investment sum should be held as liquidity reserve permanently
5. Locations: Business location is an important success factor and one of the fundamental decisions that has an impact on the future prosperity of the firm.
6. Cost Management: Cost management is a critical success factor for businesses in industries where margins are low.

Chapter 7 Conclusion and Recommendations for future growth

The resources and capabilities of a firm are the primary constants upon which a firm can establish its identity and frame its strategy, and they are the primary sources of the firm's profitability. The key to a resource-based approach to strategy formulation is understanding the relationships between resources, capabilities, competitive advantage, and profitability; in particular understanding through which competitive advantage can be sustained over time. This requires the design of strategies which exploit to maximum effect each firm's unique characteristics (Lee and Low 1990).

Preferred Choice Food Company through establishing its core competencies, resources and capabilities, has been able to identify the paths to which would further strengthen its competitive advantage. New areas of growth that leveraged economies of scale and scope were evaluated and planned for execution; although seemingly profitable, what comes with it are also different sets of challenges and resource requirements. Where to compete successfully and achieve sustaining competitive advantage is no more just about cost leadership or advantage, it is definitely good to have, but more importantly it is the ability to constantly foresee the future capabilities required and utilize innovation and creativity to acquire them earlier than competitors.

The impact of customer consolidation and globalization are increasing the need to improve efficiencies in order to compete (Lee and Low 1990). Consumers and customers are demanding more sophistication than ever before. Food safety, quality and innovation are now industry norms, reducing cost and increasing efficiencies are most important.

Preferred Choice Food Company has to diversify to stay relevant to offer a range of food services and products, while expanding its revenue streams to fully exploit and benefit from Singapore's vibrant food scene. In fact the lines between food service, food manufacturing, retail or wholesale are blurring. More F&B establishments are encroaching and competing into each others space as related diversification is seen to offer great advantages in the food

sector. In fact the evaluated business opportunities all offer exciting opportunities and good returns for PCFC, but by expanding the value chain too much too soon, it may result in failure to cope and loose its foothold. PCFC has to do so one step at a time by harmonizing the exploration of existing resources with the development of the resources and capabilities for competitive advantage. To the extent that capabilities are learned are perfected through repetition, capabilities develop automatically through the pursuit of a particular strategy. The essential task, then, is to ensure that strategy constantly pushes slightly beyond the limits of the firms capabilities at any point of time. This ensures not only the perfection of capabilities required by the current strategy, but also the development of the capabilities required to meet the challenges of the future.

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Appendix A

PCFC SWOT Analysis - ANALYSIS OF RESOURCES, COMPETENCE AND CULTURE

Strengths

1) Growing customer base: PCFC currently has increased contract managed outlets to 5. Its target market of low/mid sized organizations means that it will continue to grow share in space with the array of services it has to offer.

2) Brand value: The company has built up a consistent brand image through corporate staff uniforms and signage put up at its outlets. It is associated with an innovative way of providing a refreshing cafeteria experience while delivering quality that represents excellent value (Lee and Low 1990).

3) Economies of scale in procurement: Only direct suppliers were sourced and quotes were compared with information from established competitors before selection was made from a list of recommendations and known contracts. The daily output from the 5 outlets ensures that supplier prices remain competitive.

4) Customer flexibility: Small organization with the ability to make decisions on the spot (Chan & Chiang 1995).

Weaknesses

1) Insufficient standardized workflow and procedures:

As the customer base grows bigger, time control and workflow schedule becomes crucial. PCFC has to set up a standardization department to formulate, monitor and maintain its processes

2) No certification for food safety: Hazard Analysis Critical Control Point (HACCP) standards – an internationally recognized set of quality control and

hygienic standards (see Appendix B). PCFC commitment to high standard of food safety will win consumer confidence and help build brand equity

3) Cash and procurement control: >80% of turnover and >60% of procurement are settled by cash. To prevent frauds committed by employees, e.g. embezzlement from the restaurant cashier, ordering and payment can be done through computer systems. For procurement control, all purchases need to be centralized to minimize the possibility of dishonesty. Raw material market prices should also be available for reference.

4) Short contract terms with customers and suppliers: Contract terms with most customers and suppliers last 2 years or the most 3 years. PCFC will need to sign and negotiate for more service and supplier contracts which will usually last >3 years with some level of investment and commitment.

5) Low entry barriers: The operation of kitchens does not require advanced technology; capital requirement is also relatively low. New entrants like commercial caterers can enter the market fairly easily. However, new entrants can only serve small size local manufacturers (<1,000 workers). They will require at least a few years of experience to achieve economies of scale and to build a reputable name before gaining confidence of MNCs.

Opportunities

1) Increasing number of MNCs and government institutions to outsource catering services to third party service providers in Asia: Malaysia, Thailand and Vietnam has a high number of manufacturing plants and MNC presence; also catering services sector is a relatively new industry in China where outsourced percentage of the business and industry sector is low and the other sectors are virtually untapped. Huge potential are found in untapped sectors; such as education, healthcare, military, etc. for catering services. Overall there is increasing outsourcing trend in all sectors and geographic locations, the market for contract catering services is huge.

2) Huge potential in convenience food market and other food service types: Singapore food service industry still offers numerous opportunities and convenience food is gaining traction mainly due to the hectic work pace and less willingness to cook at home due to smaller family sizes. Food service market is worth 5.5billion and growing at 5 to 8% per year.

Threats

1) Competition in food and beverage industry: Strong competition is seen at various sectors of the food service industry and none is more so than the retail sector where there are a total of over 5000 establishments growing at over 10% per year. Industry has low entry barriers coupled with the lure of cash transactions and increased tourism from the 2 casinos, entice individuals and corporations to enter the fray.

2) Third person liability from food poisoning: There is the subject of product liability claims if PCFC is to enter the retail market. In addition, the local government will also shut down the infected processing plant which will severely affect turnover. PCFC probably needs to increase insurance and strong emphasize on food safety.

3) Possibility of disease outbreak in livestock / community: Any major outbreak of disease in livestock / community and / or food scares will adversely affect consumer sentiment and the PCFC's profitability. It may also affect the Group's sources of supply, but the government has in place various suppliers across different geographic locations to minimize the impact if it happens.

Appendix B

Five Forces and Factor Analysis of PCFC Growth Opportunities

Supplier Power - The need to source for good quality food at the lowest price is absolutely essential. There are as many food service suppliers as there are food service companies but only a handful are large companies and because of the high number of companies they serve are under less pressure to keep prices down. PCFC on the other hand deals with only direct suppliers, e.g.; vegetables are bought direct from a farm and supplier in Malaysia, also most have long term relationships with PCFC from previous dealings and prices are comparable to what larger rivals are getting. With commercial catering, convenience foods and food retail, similar range suppliers would be used ensuring further economies of scale and lower supplier power (Lee and Low 1990). For overseas expansion, a new set of overseas suppliers need to be sourced, similar for Operation of food court and coffee shop, translating to increased supplier power for both.

Buyer Power – Food retail and commercial catering includes restaurants, cafes and fast food outlets, with individual consumers as the only buyers. The main source of buyer power is the lack of switching costs and there is high price of elasticity of demand because eating out is not essential and consumers can forego and cook their own meal. For convenience foods, and overseas expansion the rivalry between food providers are quite fierce especially with the choices available to the buyers although to a certain extent institutional food service are contract based. On the hold these businesses experience moderately high buyer power. Operation of food court and coffee shops on the other hand rents out their spaces to foodservice players and majority of the time dictates how operations are run and selects suitable players to makeup the type of cuisines offered, there is low buyer power.

Threat of new entrants – Growth in the food retail sector has been robust in recent years and profit growth has also been healthy. It only goes to show that even with the sheer size in food establishments there is still profit to be made for the new entrant although it is getting tougher especially with the increasing rents, food cost and labour. But overall barrier of entry is low if players have

the capital to obtain staff and cover costs like rental, kitchen equipment and shop renovation. Similar is the case for commercial catering, convenience foods and institutional catering where if sufficient startup capital is present; but sustainability could be a problem if experience in the industry is not present especially with business to business businesses. Threat of new entrants are relatively high and it explains the high number of competitors. Again with operation of food courts and coffee shops, because of the sheer size of capital required, involving rental or purchase of large spaces, barrier of entry is much higher and see fewer competitors, threat of new entrants are therefore lower (Chan & Chiang 1995).

Threat of substitutes – In food retail, operation of food court and coffee shops, customers are usually in the position to prepare their own meals, which constitutes the main threat of substitutes, furthermore snacking on the go and convenience foods are getting more prevalent. Convenience food therefore experiences the main threats from food retail, food courts and coffee shops. Commercial catering threats derive from food retailers offering catering options. Institutional food service derive revenues from mainly captive patrons who are employees of the organizations served and dining out is usually not an option because there is either no food service provider in the vicinity or cost of meal is much higher outside. Threats of substitutes for overseas expansion of institutional catering sites would as a result be low.

Rivalry between existing sellers – Competitors are intense in the entire foodservice and processing sector and usually in the form of medium or small companies. But rivalry between sellers is somewhat mitigated due to the ease of expansion, absence of high exit costs and the size of the market, meaning that there is sufficient support from the market on the number of establishments but also with new entrants there would be also another set leaving the industry. Generally rivalry is still considered pretty high.

Startup costs – Startup costs would be high for convenience food manufacturing, food retail, overseas expansion and operating of food courts or coffee shops. To different extent, all these businesses need to incur costs

like kitchen equipment, rental, and resource requirements in order to functionally operate, while commercial catering would be significantly lower because costs could be shared with current institutional catering operations.

Leverage ability of resources and capabilities – Institutional food service or catering operations serve as a platform to compliment expansion into commercial catering, food retail and convenience food manufacturing where it is able to carry over know-how, human resource (Lee and Low 1990), food quality and hygiene standards to promote the expansion to these new services. Another main benefit is the reduced wastage as a result of the shared fixed and food costs. Overseas expansion is not as capable to due to it being a new geographical market and operation of food courts and coffee shops require a different set of resources and capabilities (Chan & Chiang1995).

Profit potential – In terms of profit potential, all areas have good opportunities for good profit ranging from 5% to over 20%. On the average, the lowest would be food retail but the shortfall could covered by high sales volume while commercial catering and operation of food courts and coffee shops could see high profit margins but the latter being the riskiest.

Appendix C

Startup Expense of PCFC Commercial Catering

Startup Expenses

PCFC Commercial Catering

Startup Expenses

Buildings/Real Estate

Rental (per mth)	\$	500
Renovation		-
Kitchen Ventillation and Preperation		-
Other		-
Total Buildings/Real Estate	\$	500

Capital Equipment List

Furniture	\$	-
Kitchen Equipment		-
Lights and Fixtures		-
Display items		-
Safe		-
Cash Register/ POS		-
Computer and accessories		1,000
Crockery and Utetnsils		5,000
Others		-
Total Capital Equipment	\$	6,000

Location and Admin Expenses

Utility deposits		-
Legal and accounting fees		1,000
Prepaid insurance		500
Pre-opening salaries		1,000
Other		-
Total Location and Admin Expenses	\$	2,500

Opening Inventory

Food Purchase	\$	1,500
Beverage Purchase		-
Total Inventory	\$	1,500

Advertising and Promotional Expenses

Advertising	\$	2,000
PR company (Include Logo design and copy writer)	\$	-
Signage		-
Menu Printing		500
Travel/entertainment		-
Other/additional categories		-
Total Advertising/Promotional Expenses	\$	2,500

Other Expenses

Petrol and Transportation	\$	-
Other expense 2		-
Total Other Expenses	\$	-

Reserve for Contingencies

\$	-
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Summary Statement

Startup Expenses

Buildings/real estate	\$	500
Capital equipment		6,000
Location/administration expenses		2,500
Opening inventory		1,500
Advertising/promotional expenses		2,500
Other expenses		-
Contingency fund		-
Total Startup Expenses	\$	13,000

Appendix D

PCFC Commercial Catering Cash Flow/ Profit & Loss

PCFC Commercial Catering

Cash Flow and Profit & Loss (\$ x 1000)

	Mo. 1.00	Mo. 2.00	Mo. 3.00	Mo. 4.00	Mo. 5.00	Mo. 6.00	Mo. 7.00	Mo. 8.00	Mo. 9.00	Mo. 10.00	Mo. 11.00	Mo. 12.00
Income from Sales												
Total	5.00	5.00	5.00	5.00	5.00	6.00	10.00	12.00	12.00	12.00	14.00	15.00
Cost of Goods Sold												
Food Purchase	1.50	1.50	1.50	1.50	1.50	1.80	3.00	3.60	3.60	3.60	4.20	4.50
Fixed Labour	0.00	0.00	0.00	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Total	1.50	1.50	1.50	3.00	3.00	3.30	4.50	5.10	5.10	5.10	5.70	6.00
Gross Income	3.50	3.50	3.50	2.00	2.00	2.70	5.50	6.90	6.90	6.90	8.30	9.00
Fixed costs												
Rent	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.00	1.00	2.00	2.00	2.00
Utilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounting	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50
Advertising	2.00	0.00	0.00	0.00	0.00	0.00	2.00	0.00	0.00	0.00	0.00	2.00
Interest on loan(s)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	4.00	0.50	0.50	0.50	0.50	0.50	3.00	1.00	1.00	2.00	2.00	4.50
Variable Costs												
Variable Employees	1.00	1.00	1.00	0.00	0.00	0.00	0.80	0.80	0.80	0.80	0.80	0.80
Repair and Maintenance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Petrol and Transporation	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50	0.50	0.50	0.50	0.50
Kitchen Equipment	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial Vehicle	0.00	0.00	0.00	0.00	0.00	0.00	5.00	0.50	0.50	0.50	0.50	0.50
Others	1.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Owner's draw	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Employee CPF	0.00	0.00	0.00	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
Total	7.50	1.00	1.00	0.22	0.22	0.22	6.52	2.02	2.02	2.02	2.02	2.02
Total Costs	11.50	1.50	1.50	0.72	0.72	0.72	9.52	3.02	3.02	4.02	4.02	6.52
Cash Flow from Operations	-8.00	2.00	2.00	1.28	1.28	1.98	-4.02	3.88	3.88	2.88	4.28	2.48
" Cumulative		-6.00	-4.00	-2.72	-1.44	0.55	-3.47	0.41	4.30	7.18	11.46	13.94
Less Depreciation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit (Loss) Before Tax	-8.00	2.00	2.00	1.28	1.28	1.98	-4.02	3.88	3.88	2.88	4.28	2.48